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REGIONAL AND SUBREGIONAL ECONOMIC INTEGRATION
AND COOPERATION AMONG DEVELOPING COUNTRIES:
ADJUSTING TO CHANGING REALITIES

THE AFRICAN CASE

Report by the UNCTAD secretariat

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LIST OF ABBREVIATIONS

AEC	African Economic Community
ALADI	Latin American Integration Association
ALGR	Authority for the Integrated Development of the Liptako-Gourma Region
AMU	Arab Maghreb Union
ASEAN	Association of South-East Asian Nations
CAfCH	Central African Clearing House
CE	Council of the Entente
CEAO	West African Economic Community
CEEAC	Economic Community of Central African States
CEPGL	Economic Community of the Great Lakes Countries
CILSS	Permanent Inter-State Committee on Drought Control in the Sahel
EEC	European Economic Community
ECOWAS	Economic Community of West African States
IOC	Indian Ocean Commission
LCBC	Lake Chad Basin Commission
MRU	Mano River Union
NBA	Niger River Basin Authority
OAU	Organization of African Unity
OKB	Organization for the Planning and Development of the Kagera River
OMVG	Organization for the Development of the River Gambia
OMVS	Organization for the Development of the Senegal River
PTA	Preferential Trade Area for Eastern and Southern African States
PTACH	PTA Clearing House
SACU	South African Customs Union
SADCC	Southern African Development Coordination Conference
UDEAC	Central African Customs and Economic Union
WACH	West African Clearing House

INTRODUCTION

1. Regional and subregional economic integration and cooperation is widely recognized and accepted as a necessary condition for the long-term sustainable and stable development of African countries. There are a number of reasons for this. The single most important one is the acute fragmentation of the African continent. As a consequence of this fragmentation, very few single African countries possess the resources and market size necessary for viable industrialization. Even fewer African countries can participate on their own in the rapid technological and information revolution now sweeping the world.
2. The African countries themselves and the international community, in various convergent policy declarations and statements, have underlined intra-African economic integration and cooperation as indispensable for the socioeconomic transformation of African countries. Three region-wide development programmes have been adopted at the annual summits of Heads of State and Government of the Organization of African Unity (OAU): namely, the "Monrovia Declaration" in July 1979, the Lagos Plan of Action (1980-2000) for the economic development of Africa and the Final Act of Lagos of April 1980. Drawing inspiration from the Lagos Plan of Action, the United Nations General Assembly adopted in June 1986 the United Nations Programme of Action for African Economic Recovery and Development 1986-1990 (UNPAAERD) which endorsed international support for intra-African economic integration and cooperation. This emphasis has been maintained in the "United Nations New Agenda for the Development of Africa in the 1990s", adopted by the General Assembly in December 1991.
3. The Lagos Plan of Action and the Final Act of Lagos established major guidelines whereby the African countries, individually and collectively, would undertake economic development. Collectively, the consolidation of the African economic space through subregional common markets was a primary objective owing to its importance for the development and expansion of intra-African trade. Trade, being the engine of growth, would stimulate regional agricultural, industrial, technological and infrastructural development.
4. Major changes evolving on the international political and economic scene have given new impetus to regionalism. Recently there has been an up-surge in worldwide activities to accelerate, consolidate and expand regional and subregional economic integration and cooperation programmes as well as create new ones.¹ Parallel to the global resurgence of interest in regional cooperation, intra-African economic integration and cooperation has been given renewed emphasis. However, if the coming decades are to witness the evolution of a viable dynamic process of intra-African economic integration and cooperation, the revival process needs to be set in the context of a realistic appraisal of past experience and the new regional and global realities.
5. This report appraises the process of African regional and subregional economic integration and cooperation. The aim is to identify major issues requiring priority attention for revitalizing as well as adjusting the process to new realities.² Chapter I discusses the major obstacles encountered in the past. Chapter II examines major guidelines for creating a viable foundation for rendering intra-African economic integration and cooperation more dynamic and adaptable to changing conditions. Chapter III discusses the emerging global and regional framework within which the whole process of strengthening intra-African economic integration and cooperation needs to be set. The last chapter summarizes the main conclusions of the report.

¹ For further discussion see, for example, UNCTAD, *The implications of bilateral arrangements and regional economic integration, especially in those which have a major impact on global trade, in particular on the trade and development of developing countries* (TD/B/1242, 16 January 1990).

² Many other studies on intra-African economic integration and cooperation have been conducted in the recent past. See for example F.T. Joshua, "Experience of African regional economic integration" in *UNCTAD Review*, (Vol. 1, No.2, 1989: pp. 59-78) and World Bank, *Sub-Saharan Africa: From Crisis to Sustainable Growth*, (World Bank: Washington, D.C., 1989: Chapter 7).

I. OBSTACLES ENCOUNTERED

6. The salient obstacles encountered in the past affecting the process of intra-African economic integration and cooperation and the associated lessons derived from that experience will be reviewed under the broad categories of institutions, their objectives and policies and instruments.

A. Institutions

7. Institution-building is an essential element for the promotion of economic integration and cooperation. It is an area in which African countries have been quite prolific. There are about 10 major subregional 'integration' groupings with multisectoral responsibilities; they pursue common market objectives. These include the Arab Maghreb Union (AMU), the Central African Customs and Economic Union (UDEAC), the Economic Community of West African States (ECOWAS) and the Preferential Trade Area for Eastern and Southern African States (PTA). In addition, there are numerous other intergovernmental and non-governmental 'cooperation' groupings with responsibility for specific sectors (infrastructure development, education, health), for combating specific problems (desertification, locusts, riverblindness) or for developing lake and river basins.

8. Institutional proliferation has led to a situation of overlapping membership in groupings on the part of African countries. There are about three different layers of membership; first, at the regional level, all African countries (except two) are members of OAU. Secondly, all African countries are members of one or more subregional integration groupings. In ECOWAS, for example, seven member States are also members of the West African Economic Community (CEAO) while three member States are also members of the Mano River Union (MRU). In Central Africa, all the member States of UDEAC are also members of the Economic Community of Central African States (CEEAC). In Southern Africa, most of the member States of the Southern African Development Coordination Conference (SADCC) are also members of PTA. Thirdly, most countries are also members of multilateral cooperation groupings. Table 1 below illustrates this situation.

9. The effectiveness of groupings has been undermined by their proliferation. Most groupings depend on financial support from member Governments. However, countries having membership in two or more groupings incur heavy financial burdens which are often beyond their means. In the 1980s, in particular, most African countries suffered serious liquidity problems and could not pay the financial contributions owed to groupings. Many countries, which at times encountered difficulties in meeting the payment of salaries in their public service, were even less responsive to the plight of the groupings. Some member States have accumulated considerable arrears in their financial contributions. For example, in ECOWAS as of December 1990, most of the member States had accumulated arrears amounting to over four years of contributions. Thus many groupings have been experiencing great financial difficulties which have reduced them to implementing only a minimum of their work programmes with a small number of professional staff.

10. Most of the cooperation groupings have been in almost perpetual financial difficulties. They normally have small budgets despite large staff (especially professional) expenditures and high-cost projects. Non-payment of contributions by member States severely curtails their administration budgets. Moreover, many of these groupings have not been successful in mobilizing sufficient resources for financing their cooperation projects. They thus have been forced to scale down substantially their activities and to devote considerable effort to the search for new sources of financing. The Gambia River Development Organization, for example, had reduced its budget and secretariat structure in 1991.

Table 1

FREQUENCY OF MEMBERSHIP BY AFRICAN COUNTRIES IN MAJOR ECONOMIC INTEGRATION AND COOPERATION GROUPINGS

COUNTRY	GROUPINGS	COUNTRY	GROUPINGS
Algeria	AMU	Malawi	PTA, SADCC
Angola	SADCC	Mali	ECOWAS, CEAO, CILSS, NBA, OMVS, ALGR
Benin	ECOWAS, CEAO, CE, NBA	Mauritania	ECOWAS, CEAO, AMU, CILSS, OMVS
Botswana	SADCC, SACU	Mauritius	PTA, IOC
Burkina Faso	ECOWAS, CEAO, CE, CILSS, NBA, ALGR	Morocco	AMU
Burundi	CEEAC, CEPGL, PTA, OKB,	Mozambique	PTA, SADCC
Cameroon	UDEAC, CEEAC, LCBC, NBA	Namibia	SADCC
Central African Rep.	UDEAC, CEEAC	Niger	ECOWAS, CEAO, CE, CILSS, LCBC, NBA, ALGR
Chad	UDEAC, CEEAC, CILSS, LCBC, NBA	Nigeria	ECOWAS, LCBC, NBA
Comoros	PTA, IOC	Rwanda	CEEAC, CEPGL, PTA, OKB
Congo	UDEAC, CEEAC	Sao Tome & Principe	CEEAC
Cote d'Ivoire	ECOWAS, CEAO, CE, NBA	Senegal	ECOWAS, CILSS, OMVG, OMVS
Djibouti	PTA	Seychelles	IOC
Equatorial Guinea	UDEAC, CEEAC	Sierra Leone	ECOWAS, MRU
Ethiopia	PTA	Somalia	PTA
Gabon	UDEAC, CEEAC	South Africa	SACU
Gambia	ECOWAS, OMVG	Swaziland	PTA, SADCC, SACU
Ghana	ECOWAS	Tanzania Uni. Rep.	PTA, SADCC, OKB
Guinea	ECOWAS, MRU, NBA, OMVG	Togo	ECOWAS, CE
Guinea Bissau	ECOWAS, OMVG	Tunisia	AMU
Kenya	PTA	Uganda	PTA, OKB
Lesotho	PTA, SADCC, SACU	Zaire	CEEAC, CEPGL
Liberia	ECOWAS, MRU	Zambia	PTA, SADCC
Libyan Ar. Jam.	AMU	Zimbabwe	PTA, SADCC
Madagascar	IOC		

Source: Adapted from F.T. Joshua, "Experience of African Regional Economic Integration" in *UNCTAD REVIEW*, vol.1, No.2, 1989: pp. 61-63: Table 1.

Note: The abbreviations for groupings have been previously defined (see page iv).

11. Integration groupings within the same subregions generally share similar objectives and perform similar functions. For example, as noted previously, ECOWAS, MRU and CEAO are located in the same West African subregion and they all aim at fostering the free flow of peoples, goods and services. Similar concerns apply to UDEAC and CEEAC in Central Africa, and increasingly to PTA and SADCC in Southern Africa, as the latter grouping moves towards including economic 'integration' issues in its former 'cooperation' programme (see chapter III, section C below). Moreover, the functions of the multisectoral integration groupings and the sector-specific cooperation groupings can also overlap. For instance, one of CEAO's functions covers cooperation in the production, processing and marketing of livestock and meat; this is also a specific function of the Economic Community for Livestock and Meat of the Council of the Entente for largely similar French-speaking West African countries.

12. The situation of groupings with overlapping objectives and functions within the same subregion creates a strong potential for duplication of activities, leading to uneconomical use of available scarce financial and human resources. Moreover, attendance at the high-level meetings of these groupings becomes costly and onerous for member States. These meetings often generate a plethora of decisions and acts which can be not only confusing to member States but also an administrative burden. For example, for a country with membership in three integration groupings, the coordination and application of common transit documents and customs forms becomes unmanageable at the level of working officials.

13. Additionally, national follow-up mechanisms are generally lacking for most groupings. This lacuna is manifested in member States' slow and low rate of ratification and implementation of acts and decisions adopted by the governing bodies of groupings. It has contributed in some degree to a delay in the launching of trade liberalization schemes and to a failure to fulfil financial obligations by member States.

B. Objectives

14. Objectives and timetables for achieving the objectives are integral to the process of economic integration and cooperation. In all groupings, the original treaties and associated protocols delineate the main objectives and the process of movement towards them through each stage, with a series of activities to be implemented within certain time periods. The adoption of holistic goals is necessary for integration groupings with a common market objective. The establishment of a free trade area, for instance, requires member countries to adopt common trade liberalization programmes for the removal of national tariff duties on the intra-trade of the grouping. Similarly, the formation of a customs union requires member countries to adopt a single common external tariff. However ambitious, these are necessary objectives. The cooperation groupings likewise establish timetables for achieving their objectives, mainly through implementation of development projects.

15. One major criticism of integration groupings in particular is that their objectives are often too ambitious. This problem relates more to the timetables and sequencing of the different stages of implementation rather than their common market objectives. There has been a tendency to adopt timetables of short periods and a sequencing of implementation of activities whereby each different stage in the overall process should be achieved by all member States within the designated time period. There is naturally a desire to consummate the common market process within the shortest period possible. Many member States, however, have not been able to match the pace, given their wide differences in terms of stages of development, tariff structures and macroeconomic policies. Consequently the member State with the slowest rate of implementation has tended to determine the pace of the entire grouping's progress towards economic integration. This means that implementation of planned activities has often lagged far behind the agreed timetables.

16. Another major problem has been a emphasis on a *laissez-faire* approach to regional market-integration. Most of the integration groupings have focused their attention on trade liberalization measures and paid less attention to other sectors supporting trade expansion, such as production integration or monetary and financial cooperation. However, the development of these latter conditions for supporting regional trade expansion among African countries was important as these elements were in general lacking (see also section below).

C. Policies and instruments

17. Most groupings have established programmes for economic integration and cooperation covering trade liberalization, multilateral clearing and payment arrangements, agricultural and industrial development, and cross-border infrastructure development.

1. Trade liberalization

18. Progress towards trade liberalization has been painfully slow in all integration groupings. This is of major concern because trade liberalization is the first major step towards the formation of free trade areas, customs unions and common markets. For example, the ECOWAS trade liberalization scheme was launched on 1 January 1990,³ ten years after the original schedule. The Economic Community of the Great Lakes Countries (CEPGL), MRU and PTA have been attempting to strengthen and consolidate their trade liberalization schemes. CEEAC

³ It provides for the gradual elimination of tariffs to intra-ECOWAS trade in all products by the end of this century.

has yet to launch its trade liberalization scheme. AMU recently approved a programme for intra-regional trade liberalization. The poor record in trade liberalization partly explains the poor intra-trade performance of groupings, especially when viewed in terms of the percentage accounted by intra-group trade in the group's total exports. This has been so for most groupings, with the notable exception of CEAO (see table 2 below).

19. A number of conceptual problems blocked progress on regional trade liberalization. These included: difficulties in standardizing and eventually harmonizing customs documents and tariff schedules; stringent rules of origin which often disqualified the bulk of manufactured and agricultural products produced by member States from benefiting under the regional trade liberalization programmes; the fear, especially on the part of the lesser advanced countries, of loss of fiscal revenue in the event of intra-African trade liberalization;⁴ and problems of balancing the distribution of benefits and costs of economic integration, in particular industrial growth, in view of their possible polarization in the more advanced member States.

Table 2

AFRICAN INTRA-GROUP TRADE PERFORMANCE, 1981 TO 1989

Country Group	1981	1985	1986	1987	1988	1989
A. Value of intra-group trade (in millions of dollars)						
CEAO	396	297	300	416	499	...
CEEAC	111	70	125	128	193	...
CEPGL	7	10	8	8	10	...
ECOWAS	944	481	491	588	684	...
MRU	3	4	4	5	6	...
PTA	482	333	372	487	506	494
SADCC	258	200	226	308	304	...
UDEAC	146	50	84	103	117	...
B. Intra-group trade as a percentage of total exports of each group						
CEAO	10.1	7.1	6.5	8.4	10.5	...
CEEAC	2.4	1.4	2.8	2.9	3.7	...
CEPGL	0.2	0.8	0.6	0.7	0.7	...
ECOWAS	4.6	2.5	3.2	4.0	4.9	...
MRU	0.1	0.4	0.4	0.5	0.6	...
PTA	9.0	7.5	6.9	8.9	8.0	7.8
SADCC	5.7	4.9	5.9	6.1	5.0	...
UDEAC	3.0	2.0	3.0	3.2	3.6	...

Source: UNCTAD, TD B C.7 AC.3 10: Table 1.

Note: Data not available indicated by "...".

20. In addition, the effectiveness of approved trade liberalization programmes has been constrained by, among other things, low product coverage, low preferential tariff margins and a lack of progress in eliminating non-tariff barriers which are also difficult to define and classify. Furthermore, the enterprise sector was often not a participant in the drafting of trade liberalization programmes or the corresponding selection of product items for preferential treatment. Consequently, the enterprises were not only unaware, but could not take advantage of the preferences granted. Weakness in production linkages has also hindered intra-regional trade expansion (see sub-section (3)).

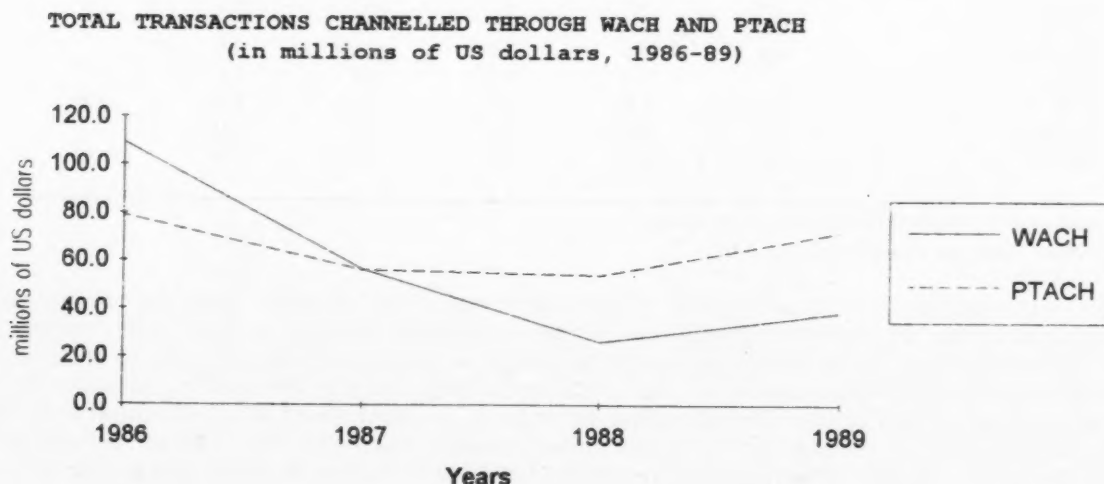
⁴ This is a valid concern although it has often been exaggerated given that intra-African trade accounts for only a small percentage of the total trade of developing African countries (around 7 per cent in 1988 and 1989). Moreover, the rules of origin requirements further limit the product items that could be considered for preferential treatment.

21. It has been observed that following the implementation of trade liberalization programmes, in the case of developing country groupings, there was an initial expansion of intra-grouping trade after which such trade stagnated and then declined during the crisis period of 1982 to 1986.⁵ For example, when CEAO extended mutual trade preferences after 1970, the value (and percentage share in total CEAO exports) of intra-grouping trade expanded from US\$ 177 million (6.7 per cent) in 1976 to US\$ 396 million (10.1 per cent) in 1981; it then declined to US\$ 300 million (6.5 per cent) in 1986. In UDEAC, which extended mutual trade preferences before 1970, the value (and percentage share in total UDEAC exports) in intra-grouping trade expanded from US\$ 3 million (1.6 per cent) in 1960 to US\$ 200 million (4.1 per cent) in 1980; it then declined to US\$ 50 million (2.0 per cent) in 1985.

22. In the period after 1986, it is worth noting that the intra-regional trade of African integration groupings appeared to be recovering from the crisis of the 1980s (see table 2 above). The value of intra-trade of all groupings had increased steadily after 1986 such that by 1988 most of the integration groupings' intra-trade value had exceeded the pre-crisis level of 1981. In most of the groupings, the percentage share of intra-trade in their total trade had also increased between 1986 and 1988.

2. Clearing and payments arrangements

23. Three multilateral clearing and payments arrangements have been established, namely, the West African Clearing House (WACH), Central African Clearing House (CAfCH) and the PTA Clearing House (PTACH). They promote the use of member States' currencies in clearing current trade transactions among them, which helps to minimize the use of scarce hard currency. However, their operations have been limited. For example, the total volume of transactions channelled through WACH in 1986 amounted to US\$ 109 million, while ECOWAS intra-trade in the same year stood at US\$ 970 million. In PTACH, in 1986, the total volume of transactions channelled through its clearing facility amounted to US\$ 79 million, while total PTA intra-trade amounted to US\$ 372 million.⁶ Moreover, these transactions declined during the 1980s, reaching their lowest level in 1988 for both PTACH (US\$ 64 million) and WACH (US\$ 26.2 million) with the decline in WACH being quite substantial (see the graph below).



Source: UNCTAD (TD/B/C.7/AC.3/10) Table 4

⁵ UNCTAD, *Economic integration among developing countries: trade cooperation, monetary and financial cooperation and review of recent developments in major economic cooperation and integration groupings of developing countries* (TD/B/C.7/AC.3/10, 12 December 1990: pp. 2-3).

⁶ UNCTAD, TD/B/C.7/AC.3/10: tables 1 and 4. Data for transactions channelled through CAfCH are not available.

24. Several factors were instrumental in limiting the operations of the clearing arrangements. Chief among them were: weaknesses in the intra-trade of integration groupings; imbalances in the trade exchanges of member States which fostered persistent debtor-creditor patterns; restrictions on the types of good for which transactions could be cleared through the clearing arrangements; and the avoidance of the clearing system by member countries on account of foreign exchange problems.

25. Measures have been taken to revamp the clearing arrangements. A new arrangement was created to replace and revitalize CAfCH. In PTACH, following the adoption of new instruments, including a PTA unit of account for clearing purposes, there has been a decrease in the percentage of transactions cleared using foreign convertible currencies. In WACH, the arrears accumulated within the system have been reduced and efforts are now being concentrated on arresting and reversing the declining volume of cleared transactions. These improvements appear to have generated some signs of recovery in WACH and PTACH in 1989 (see graph above).

3. Agricultural and industrial development

26. Although many integration groupings have identified priority objectives for subregional agricultural and industrial development, limited concrete measures have been taken in pursuit of these objectives. In most of the integration groupings, member States were preoccupied with trade liberalization issues and consequently paid limited attention to joint agricultural and industrial development cooperation. Hence, these sectors generally remained on the periphery of the process of intra-African economic integration and cooperation.

27. The designing and adoption of agricultural and industrial programming policies, for example, have not yet been defined or elaborated in many integration groupings. Common rules governing foreign direct investment such as those concerning investment incentives are matters still under discussion. In effect, the necessary policy guidelines and programmes for subregional industrial development have not been put in place. As a result, most integration groupings in Africa have not been able to establish major multinational industrial projects, for example.

28. Some groupings have undertaken agricultural cooperation initiatives aimed basically at developing agricultural production and establishing self-sufficiency in food. The Council of the Entente and SADCC, for example, have implemented activities aimed at the production, processing and marketing of livestock and meat. Many of these initiatives, however, suffer from the lack of sufficient development funds.

29. The weakness of agricultural and industrial-development-related activities in most groupings has been a major handicap, given that African economies, especially at the subregional levels, are characterized by low economic complementarity. These economies share similar production structures which are primarily commodity-based with a limited degree of manufacturing based on broadly similar levels of industrialization. The weak subregional production bases yield a limited range of tradeable (and consumeable) products. This in turn narrows the scope for, and restricts the prospects of, regional trade exchanges.

4. Infrastructure development

30. The lack and poor quality of regional infrastructure and networks -- historically oriented more to developed countries -- have acted as a brake on intra-African trade expansion and industrial growth. Regional transport and communication networks within most subregions of Africa are either obsolete and dilapidated or are virtually non-existent. This situation poses formidable barriers to intra-regional trade. Despite valiant efforts to correct the deficiency, much needs to be done, especially by subregional groupings, as continental roads, railways, airlines and telecommunication facilities linking countries within Africa are still very few.

31. Regional infrastructural development could have progressed further within groupings if there had been substantive progress towards regional market-integration and industrial development. The expansion of regional trade through market-integration measures and the growth of regional industrial capacity would naturally lead to the development of the necessary supportive infrastructure linkages; in fact they are mutually interdependent. However, without a strong movement towards regional market-integration and industrial growth, the development of regional infrastructure networks has also lagged.

32. Notwithstanding these limitations, there have been some positive developments, mainly in some of the 'cooperation' groupings. This is exemplified most vividly by the experience of SADCC which has been able to secure considerable funds for its projects owing to its emphasis on infrastructure development (rather than on market-integration) during its first ten years of existence and to its special relations with external donor agencies and countries. For example, by the end of July 1991, SADCC had mobilized for its projects a total of US\$ 3.5 billion (or 41 per cent of its total resource needs) from regional and international sources.⁷ The availability of finance for many SADCC projects is a major factor underpinning its regional cooperation process. Apart from SADCC, the infrastructural projects of most sectoral cooperation groupings generally lack sufficient funding, however.

33. Some of the integration groupings which have been bogged down in their market-integration efforts have nevertheless been able to make some headway in the development of physical infrastructure. ECOWAS, for example, has achieved progress towards establishing telecommunications links between all ECOWAS capital cities. This attainment indicates a certain willingness on the part of member States to give practical effect to those cooperation activities which enhance their development prospects while respecting their sovereignty, at least in the initial stages of cooperation.

⁷ SADCC Annual Report: July 1990 - June 1991, (SADCC: p.32).

II. FUTURE OPTIONS

34. The foregoing appraisal reveals that it was primarily in the 'hard core' areas of economic integration and cooperation that the record of achievements was meagre despite the panoply of institutional structures and cooperation programmes in place. Endogenous factors, particularly involving weak institutional structures, errors of conception in integration and cooperation instruments as well as structural deficiencies have all been significant obstacles. The poor record of subregional groupings in drafting bankable projects and in mobilizing domestic and external funds for project financing has curtailed progress as well. These internal obstacles must be addressed before the foundations can be laid for viable intra-African economic integration and cooperation.

A. Institutional rationalization

35. Groupings are the major instruments for building viable subregional and regional economic integration and cooperation. Enhancing their effectiveness and technical competence is a prerequisite. This requires, as an immediate priority, rationalization through dissolution, merger or convergence, where appropriate, of the functions and activities of various existing groupings and, if necessary, of the groupings themselves within the same subregions. The need to streamline subregional groupings was identified in the Lagos Plan of Action. It becomes especially relevant in the context of the establishment of a continent-wide economic community (see chapter III, section B below).

36. The rationalization of groupings depends to a large extent on the political will of member States. Groupings are created by legal instruments (treaties and associated protocols) signed and ratified by member States. The very same member States, if they deemed it appropriate and necessary, could thus recommend their rationalization. A bold first step in this direction was taken by the 13th ECOWAS Summit session in May 1990 which recommended a rationalization within the ECOWAS framework of all other West African intergovernmental organizations with similar or comparable goals.⁸ Similar initiatives are being carried out in Central Africa (involving CEEAC, UDEAC and CEPGL) and in Southern Africa (between PTA and SADCC).

37. Improving the financial status of groupings is another priority. At present it would depend on the member Governments making their financial contributions to groupings on a consistent basis as well as trying to eliminate arrears. This would allow groupings to keep sufficient qualified staff to carry out in a competent manner the planning, programming and execution of their heavy workload of economic integration and cooperation programmes. These range from trade liberalization and infrastructural development to social and political cooperation. Another option would be to prune the budget and workload of groupings to the minimum consistent with the maintenance of a high and efficient delivery capacity in crucial areas.

38. The poor record of many member States in making timely annual budgetary contributions to groupings has led some groupings to search for other ways and means of either becoming self-financing or reducing their dependence on financial contributions from member States. CEAO has been one of the first groupings to attempt internal sourcing of financing. It has adopted a community solidarity levy (*Prélèvement communautaire de solidarité*) of 1.0 per cent on all imports from third countries. The proceeds go to providing CEAO with its own permanent, stable source of internal revenue.⁹

⁸ Work in this direction is being carried out under a recent initiative of ECOWAS aimed at revising its constituent treaty.

⁹ The applicability of this tax to imports from non-CEAO ECOWAS countries, however, is legally controversial. All CEAO member States are also members of ECOWAS thus the imposition of this tax appears to be incompatible with the provision of the ECOWAS trade liberalization programme on "standstill" and "rollback" of tariff duties, notwithstanding the definition of the measure as a "tax" rather than an import duty.

39. Several factors figure in the concept of self-financing by groupings through the imposition of levies. One is that an efficient administrative apparatus is needed to collect revenue and ensure its transfer to the grouping. Another is that high levies on locally produced goods (export taxes) may undermine competitiveness and lead to loss of exports. It may also undermine the very purpose of regional trade liberalization. Levies on imports from third countries may have implications for the cost of living, competition with Governments for revenue from the same source and relations with third trading partners. The question of the place of groupings in the whole development strategies of the member States is fundamental. Notwithstanding the fact that multiple membership in several groupings imposes heavy financial burdens on Governments, their failure to pay seems to suggest that, in spite of political pronouncements in support of groupings, they are not yet fully persuaded that groupings widen the choices available to each Government to pursue its development objectives. Willingness to pay is just as important as the member States' ability to pay; the former depends upon the value that the member States place upon their groupings.

B. Objectives

40. In the new phase of adjustment now underway, African countries are advocating an acceleration of the process of economic integration within groupings. The establishment of the single continental economic community is also being rigorously promoted.

41. Hence, there is need to accelerate the building and strengthening of an enabling environment that would support intra-African economic integration and cooperation. The internal deficiencies which obstruct regional development need to be addressed quickly. At the same time, the consolidation of the process of subregional market-integration must continue. In undertaking this complex and demanding task, groupings will need to be practical, avoiding ambitious implementation timetables and rigid sequencing of participation by member States.

42. An approach to regional development that is comprehensive, however gradual and step-by-step is required in the African context. In addition, it must be balanced and flexible. First, broad common market objectives should be maintained. Secondly, during implementation of major objectives, a minimum overall balance should be maintained in terms of priorities, especially in the areas of market-integration, monetary and financial cooperation, production integration and infrastructural development. Moreover, emphasis should be placed on those activities deserving priority attention and which have maximum chance of success. Thirdly, timetables encompassing the broad guidelines may be needed for maintaining momentum towards attaining specific objectives; however, such guidelines can only be indicative and not definitive. Fourthly, member States should not be expected or required to participate in economic integration and cooperation activities at the same speed. There should be some flexibility in the sequencing of member States' participation in regional development.

C. Trade liberalization

43. Trade liberalization is a major building block of economic integration and cooperation. In Africa, its potential remains to be fully realized. This deficiency should be corrected. Coincidentally, the scope for liberalization of trade has widened in the new atmosphere of movement towards general liberalization and opening up of economies in developing countries.

44. The actual launching and full implementation of trade liberalization programmes deserve high priority in groupings. Member States will need to identify and resolve quickly the problems blocking progress. This could be done through measures such as: identification of locally produced products which have major trade potential then concentrating the trade liberalization efforts on these products; adoption of less restrictive rules of origins which may enhance the benefits of regional tariff preferences accorded; promotion of a foreign investment policy that is friendly; and adoption of special or differential treatment in favour of the lesser advanced member States -- this should be geared to correcting, rather than compensating for imbalances, particularly through the creation of productive and export capacities.

45. In the case of groupings with operational trade liberalization programmes, priority should be accorded to the adoption of strong action towards removing non-tariff barriers, increasing product coverage and expanding the depth of preferential tariff margins. Other trade facilitating measures could also be developed and implemented.

46. Domestic economic operators should be encouraged to participate in the activities related to trade liberalization and trade-related activities. Enterprises would become aware of, and take advantage of, incentives to produce and create trade within groupings, especially if they were linked into the whole trade liberalization process. The experience of the Latin American Integration Association (ALADI) and the Association of South East Asian Nations (ASEAN) in involving the regional business community in trade cooperation activities could be of benefit to groupings in Africa. In ALADI, sectoral industrial groups have been organized to review and propose industrial products for preferential treatment. In ASEAN, the business community has been invited to participate in ASEAN's dialogue with its major development cooperation partners on trade and economic cooperation.

D. Agricultural and industrial development

47. The objective of developing, expanding and diversifying the production capacities of African countries -- both for lending support to the process of regional trade liberalization and for promoting overall economic development -- cannot be over-emphasized. At present, all the developing African countries have mostly commodity-dependent economies. Hence, for some time to come, they will probably continue to depend on trade in commodities. Joint cooperation in commodity-related development should therefore be an important consideration of such groupings. Cooperation in the production of and trade in food, in particular, deserves special treatment, given the mounting food needs of the African continent as population expands. Cooperation programmes and projects of groupings in this area should have strong support from member States.

48. In the long-term, African countries will have to diversify their production structures into growth sectors of manufactures and services in order to expand the range of consumable and tradeable goods. It will be a slow process in view of the present low degree of industrialization in the developing countries of Africa.

49. Regional industrial development requires, as an immediate priority, the design and implementation of industrial development strategies and policies by groupings. Some of the groupings have begun to formulate plans for industrial development. ECOWAS, for instance, has undertaken inventories of existing industrial activities in its subregion as a first step towards a subregional industrial development programme. PTA has adopted a new regional integration strategy with industrial development as a central goal. Regional industrial development plans need not necessarily focus on establishing comparatively large multinational enterprises, but could help promote specialization between small- and medium-scale enterprises in different member States. The output of these regional industrial enterprises should be geared to serving national, regional and global markets.

50. Investment is also important for industrial development. Hence, groupings and their member States need to develop measures which would attract both local and foreign investment into productive industrial activities. SADCC countries, for example, have designated "investment in productive activities" a main cooperation theme. For this purpose, they have decided to devote the 1990s to creating a regional environment conducive to investment in their region.¹⁰ Another SADCC innovation concerns cooperation with Nordic countries through such means as the establishment of the NORSAD Fund, which is dedicated to supporting the growth of private export-oriented companies in the SADCC region, especially those engaged in joint-ventures with Nordic countries. Similar investment funds made available for private-sector

¹⁰ See *SADCC: The Second Decade - Enterprise, Skills and Productivity*, (SADCC: Lusaka, 31 January - 2 February 1990).

development by regional institutions such as the African Development Bank could be tapped by groupings. African groupings could also be encouraged to examine the experience of successful groupings in other developing regions, such as ASEAN which is in the process of developing industrial joint-venture schemes involving the production of motor vehicles with Mitsubishi Motor Corporation, Volvo and Mercedes-Benz.

51. Indigenous entrepreneurship and inter-enterprise cooperation is also needed for strengthening the financial, managerial and technological capacities for industrial development, nationally and regionally. Groupings can play a role by designing measures for assisting local entrepreneurs to establish joint-venture arrangements, expand trade between enterprises and encourage other regionally-oriented productive activities. Regional trade promotion activities such as trade fairs and meeting between buyers and seller could be organized by groupings. PTA has found such activities to be beneficial in generating regional business. It had thus organized a Fourth Trade Fair, from 3 to 9 July 1992 in Dar es Salaam (United Republic of Tanzania). Enterprises should also be encouraged to participate in the formulation and implementation of trade and industrial development programmes of groupings.

52. Close contacts among chambers of commerce and industry and other business organizations of individual member States of groupings are needed. This would encourage inter-enterprise cooperation in trade and production. Groupings which have established mechanisms for this purpose include the PTA Chambers of Commerce and Industry and the SADCC Regional Business Council. A more recent endeavour was the establishment of the Association of African Trading Enterprises (ASATRADE) by a meeting of the trading companies in Abidjan in December 1991. ASATRADE aims at encouraging among its member enterprises the development of business linkages, contacts, and other economic cooperation aimed at strengthening their role in trade among developing countries, in general, and in intra-African trade, in particular.

E. Clearing and payments arrangements

53. The multilateral clearing and payments arrangements will have to be revitalized and their operations strengthened. As mentioned above in paragraphs 23 to 25, steps in this direction have already been taken by the three clearing houses of the region.

54. African countries not members of the three operational clearing arrangements should be encouraged either to join or to establish their own clearing arrangements, bearing in mind both the need to avoid proliferation of institutions and the efforts underway to create a single continental economic and monetary arrangement. In this connection, AMU's efforts to create a clearing arrangement deserves the full support of its member States.

55. Members of clearing arrangements should also be encouraged to allow a large proportion of the goods and services traded among themselves to be cleared by their clearing house. This would help to expand the volume of transactions so channelled. The possibility of establishing limited convertibility schemes among willing member States should be explored with a view to alleviating problems arising from disparities in exchange rate regimes.

56. A number of groupings have begun to take concrete steps towards the formation of single monetary zones. For example, ECOWAS has approved a timetable for the introduction of a single monetary zone and common monetary authority.¹¹ PTA has drafted a plan for monetary union among its member States.¹² Although monetary union is a desirable objective, it is likely

¹¹ The initial ECOWAS monetary cooperation programme had the following elements (and time schedule): (i) analysis of non-tariff barriers and recommendations on their removal (1990); (ii) negotiations on the details and legal instruments of harmonization of macroeconomic policies directly related to monetary harmonization (1991); (iii) drafting of the protocols on the single monetary zone and the common monetary authority (1992); drafting of the statutes, rules and regulations of the common monetary authority (1993); (v) presentation of (iv) to the ECOWAS Authority for its consideration and approval (1994); and (vi) ratification of protocol relating to the single monetary zone and common monetary authority (1994). This original timetable is being revised.

¹² The long-term objective is the establishment of full monetary union in which a common monetary authority will assume the present functions of the national central banks. A number of steps that would need to be taken are defined, including: improving the functioning of the PTA multilateral clearing facility; liberalizing exchange rates; improving and developing financial structures; and establishing a PTA Stock Exchange and promoting cross-border investments and free flow of capital.

to evolve only over time, given the complexity of the subject and the current situation in Africa where there are many non-convertible currencies, at differing floating exchange rates and with various foreign exchange restrictions.

57. Other sectors of financial and monetary cooperation should likewise be gradually explored. For example, groupings and their member States could consider establishing, where needed, trade financing institutions to provide short- and medium-term credit for trade in non-traditional products, in particular. Another area for expansion is the mobilization of domestic savings and promotion of regional capital markets for economic development.

F. Follow-up at the national level

58. The establishment and strengthening of national follow-up mechanisms are essential for the promotion of an internally dynamic process of economic integration and cooperation. This goal could be pursued through several approaches.

59. A direct approach would be the creation of focal points for economic integration and cooperation in national ministries. The focal points would be involved in mobilizing national government support as well as that of other economic operators and social groups. However, ECOWAS found that the mere formation of focal points did not suffice unless such units were adequately staffed and given supportive administrative facilities and authority. In such a case it might be more effective to have full-fledged regional development ministries. Senegal, at present, is the only ECOWAS member State with such a ministry for economic integration.

60. Another approach involves the establishment of procedures for speeding up the ratification and implementation of decisions and acts adopted by the governing organs of groupings. It could include, for instance, an agreement by member States to the effect that once decisions have been adopted at the subregional level, they would become effective more-or-less automatically at the national level. Sanctions could be applied against member States failing to implement the agreed decisions within a reasonable period of time. Prompt and effective ratification and implementation of decisions and acts adopted at the subregional level should become a permanent feature of member States' support for their groupings. This would not be easy to effect because it touches on questions of supranationality, especially with respect to the willingness of member States to empower groupings to impose sanctions.

61. A third approach centres on the promotion of broad-based participation in, and support for, economic integration and cooperation. Expanding the latter's scope beyond the intergovernmental sphere is important if groupings are going to facilitate the spread of benefits realized to all sectors and levels of the region. It would also help to create a feeling of regional identity, increase the community's awareness about the process of regional development, and elicit their support for it. Measures in this regard could include: the promotion, under the aegis of groupings, of regional, social and cultural activities such as festivals and sport events; inclusion of the various social sectors such as non-governmental organizations and enterprises in the decision-making and implementation process of groupings; adoption of an articulate information policy within groupings such as ECOWAS has done when it decided in 1990 to allocate 20 per cent of official media in member States to news about ECOWAS; and the establishment of subregional parliaments for encouraging popular participation in the process of intra-African economic integration and cooperation.

G. Regional infrastructure development

62. Cooperation on developing and maintaining efficient, reliable communications linkages, inland (road, rail and air) transport linkages and ocean transport networks regionally should be strengthened because these elements facilitate regional trade as well as minimize the inherent costs. Groupings could take more initiatives in this direction; strong commitment and support

from member States would be required in tackling the task. The business sector should also be encouraged to participate in the establishment of regional road, railway, maritime shipping and civil aviation companies. It would help to develop competitive, financially viable and moderately comfortable transportation facilities.

63. In Africa, where most countries are linked by land, the most important mode of transportation for regional development may be road transport. Hence, the development of inter- and intra-subregional road networks is indispensable. It would involve completing missing segments of subregional and regional road networks, rehabilitating deteriorating infrastructure and placing emphasis on routine maintenance. The development of rail transport calls for similar treatment. Carriage by rail is important for the transport of bulk cargoes and heavy low-value primary commodities.

64. Regarding air transport, which is especially important for carrying light-weight manufactured products, several groupings have proposed establishing joint transport companies to service their regions as well as handle external trade. Member States of MRU, for example, had formed a regional airline, Air Mano, in May 1989. Unfortunately, owing to long delays in the granting of tariff rights by member States and more recently to political problems in the region, the launching of Air Mano's operations, originally scheduled for September 1991, had to be postponed. Three PTA countries, namely, Tanzania (United Republic), Uganda and Zambia were also developing a scheme for air transport.

65. Maritime modes of transportation, especially coastal shipping, are important in linking coastal States. Regional programmes for this transport mode are lacking and efforts to address the deficiency are only now underway. The West and Central African Coastal Shipping Service is a recent development initiative of ECOWAS and UDEAC, together with the Ministerial Conference of West and Central Africa on Maritime Transport (MINCONMAR). The aim is to provide a fortnightly service comprising two passenger vessels servicing the range of ports from Daka (Senegal) to Luanda (Angola), with a moderate standard of comfort for passengers and catering for the intra-regional freight market as well as transshipment to deep sea operators. Similarly, groupings should investigate the potential for developing regional transportation using inland waterways linking several countries such as the Nile, Zaire, Niger rivers and the lakes Victoria and Tanganyika.

66. Regional telecommunication linkages in Africa also need to be developed and improved. Rehabilitation and maintenance of existing facilities are important concerns. Some progress in this direction has been made through the Pan African Telecommunications Network (PANAFTEL) and the Regional African Satellite Communications System (RASCOM). However, the lack of funds and skilled manpower to maintain the existing facilities has undermined the quality of services.

III. EMERGING NEW REALITIES

67. The strengthening of intra-African economic integration and cooperation must be set in the context of changing global and regional realities. There are at least three salient elements in this regard, namely, the evolving international economic environment, the African Economic Community, and cooperation in Southern Africa in a post-apartheid era.

A. The international economic environment

68. The international economic environment affects the process of economic integration and cooperation among developing countries. Its influence became evident during the economic crisis of the 1980s. Deterioration of the external macroeconomic imbalances (rising trade deficits, deteriorating terms of trade, increasing debt and debt servicing burden) of African countries, not to mention most other developing countries, has severely undermined their cooperation efforts.

69. Although member States of groupings were expected to adopt common positions and joint measures for resolving the urgent economic problems, this did not occur. Instead, member States of groupings resorted to purely national measures of short-term crisis management, thereby often compromising their obligations to their respective grouping. For instance, in trying to improve their balance-of-payments positions, many countries instituted drastic import cuts applied generally across-the-board without regard to 'standstill' agreements of trade liberalization programmes. Imports, especially from other developing countries, were substantially curtailed as part of the overall strategy to conserve scarce foreign exchange for debt servicing payments, in particular. World economic conditions contributed in large measure to the decline in the intra-trade of African groupings, and to the contraction in volume of transactions channelled through the multilateral clearing and payments arrangements (as mentioned earlier).

70. Some of the failure of groupings to cushion their member States from the adverse effects of the international economic environment has roots in the gap that exists between national macroeconomic policies and regional programmes. The extent of this gap became clear during the adoption of national structural adjustment programmes by member States of groupings when they diverted their attention away from long-term development and regional integration goals. Contrary to their commitment to greater macroeconomic policy coordination, member States often adopted conflicting or divergent policies under structural adjustment programmes such as beggar-thy-neighbour exchange rate depreciation which set them into mutual self-defeating competition.

71. Accordingly, one important theme underpinning efforts to strengthen intra-African economic integration and cooperation would be the strengthening of the link between national and regional development policies and programmes for evolving coordinated regional policy responses to external economic challenges and problems. At the national level, member States of groupings should endeavour to give prominence to regional development in national development plans. This approach would facilitate the adoption of national development policies that make allowance for regional development objectives. National policies for developing productive capacities, expanding trade and, in general, making structural adjustments should be consistent with regional integration policies. At the level of groupings, the formulation of development plans and programmes should, as far as possible, ensure a careful reconciliation of the individual interests of member States with those of the group as a whole. Such a linkage could be promoted through the establishment and strengthening of mechanisms for regular dialogue, consultation and exchange of views and experiences on national economic policies among member States of groupings at the ministerial level as well as at the level of working officials. Although some groupings have made provision for discussion between ministers and officials responsible for economic policy, these mechanisms have not become major features of the regional development process.

72. Changes in the world economy have underscored the need to strengthen the link between national and regional development policies and programmes. One notable change is the movement towards greater cooperation between developing country groupings and individual developed countries or groupings of developed countries. In Africa, this opening is being pursued by AMU and EEC in their efforts to formulate mutual economic and, possibly, trade cooperation agreements. Another general trend in developing countries has been towards liberalization and deregulation of their economies. This has created an atmosphere which could be favourably exploited by groupings pursuing liberalization of regional markets, particularly through the launching and strengthening of trade liberalization programmes. A third element of change is the new emphasis on regional integration as a stepping stone for the integration of countries into the global economy. If major industrialized countries are taking practical steps in this direction (such as the United States through its participation in the proposed North American free trade association and the EEC through its 1992 single market objective and the envisaged European Economic Space with the European Free Trade Area countries) then it is all the more vital that those developing countries which are less integrated into the world trading system should intensify their subregional and regional integration and cooperation process.

B. The African Economic Community (AEC)

Box 1

Establishment of the African Economic Community

First Stage: not exceeding 5 years;

Focuses on strengthening and establishing viable subregional economic integration groupings in all subregions.

Second stage: not exceeding 8 years;

Involves at the level of each subregional economic integration grouping: standardisation of trade documents relating to tariff and non-tariff barriers to intra-grouping trade and the preparation of a time-table for their elimination; strengthening sectoral integration in the areas of trade, agriculture, money and finance, transport and communication, industry and energy; and coordinating and harmonising their activities.

Third Stage: not exceeding 10 years;

Involves at the level of each subregional integration grouping: the establishment of free trade areas through implementation of programmes for the elimination of tariff and non-tariff barriers; and the establishment of customs unions through the adoption of common external tariffs.

Fourth stage: not exceeding 2 years;

Focuses on the co-ordination and

harmonisation of subregional customs union arrangements into a single continental customs union.

Fifth stage: not exceeding 4 years;

Centres on the establishment of an African Common Market through the adoption of common economic, monetary and financial, industrial and technological policies as well as the launching of the process for free movements of peoples.

Sixth stage: not exceeding 5 years;

Focuses on the consolidation of the African Common Market through the establishment of the following: a single continental market allowing the free circulation of people, goods, capital and services; an economic and monetary union, including an African Monetary Fund and an African Central Bank with a single African currency; the establishment of African multinational enterprises in all sectors; and the creation of the AEC's executive organs namely: (i) an Assembly of Heads of State and Government; (ii) a Council of Ministers; (iii) a Pan-African Parliament; (iv) an Economic and Social Commission; (v) a Court of Justice; (vi) a General Secretariat; and (vii) Specialised Technical Committees.

Source: Treaty establishing the African Economic Community, Article 6.

73. A second major thrust supporting efforts to strengthen intra-African economic integration and cooperation is the establishment of the African Economic Community. Although the seeds of the AEC were sown in 1980 in the Lagos Plan of Action,¹³ it received little subsequent attention from African countries preoccupied with their overall economic problems and debt crises. Towards the end of the 1980s, OAU engaged in reinvigorated efforts in this direction. These culminated in the signing by the 27th OAU Heads of State and Government Summit in Abuja (Nigeria), in June 1991, of a treaty establishing the African Economic Community (AEC).

74. The AEC's main objective is to organize, on a continental scale, concerted efforts among African countries to promote economic, social and cultural development and integration. In so doing it will tackle common development problems and promote endogenous, self-reliant and self-sustaining growth and development. Hence, upon its entry into force, the AEC Treaty will represent the first practical step forward in implementing political commitments to amalgamate the African continent into the biggest regional economic integration endeavour attempted by developing countries.

75. The Treaty embodies a plan, described in box 1 above, for the progressive creation of the AEC in six stages, spread over a period not exceeding 34 years from the date the Treaty takes effect. In the plan, the subregional groupings form the main pillars of the AEC. This is clear from the fact that the first three stages covering over 21 years will be devoted to strengthening existing subregional groupings and to coordinating and harmonizing their programmes and activities. The establishment of the AEC would thus depend largely on progress achieved by subregional groupings towards greater economic integration and cooperation. This will also be the biggest hurdle to overcome, given the fact that the process of intra-African economic integration and cooperation, as discussed earlier, is now going through a phase of adjustment to the crisis of the 1980s and to dealing with the new realities.

76. One potential problem stems from the sequencing of activities. The AEC is to be established by a process running through six stages; the completion of one stage is the start of next one and so on, forming a chain. However, if one or more of the subregional groupings is not able to meet the conditions of say, the third stage, then the whole process is likely to be blocked. The idea of sequencing reflects the expectation that all members of subregional groupings would simultaneously attain the objectives of each stage, and preferably as rapidly as possible within the time frame accorded. Progress towards the formation of the AEC could very well depend on the speed at which the slowest grouping moved towards attainment of the basic objectives marking each stage. Nonetheless, it is not inconceivable that the winds of change blowing across Africa and through other parts of the developing world inspiring hope of greater regional integration will give impetus to African countries taking up this challenge and putting into action and deed the provisions of the Treaty establishing the AEC.

C. Post-apartheid cooperation in Southern Africa

77. Anticipation of a true political settlement in South Africa has stimulated discussion on the substantive economic policy changes likely to confront policy makers in a post-apartheid era.¹⁴ It includes new issues in the context of economic and social relationships in Southern Africa, following a long period during which economic sanctions and isolationism characterized the relationships of countries in the subregion. There are at least three issues of potential importance in this regard.

78. First, there is the new orientation in SADCC, as underlined by its 28-31 January 1992 Annual Consultative Conference theme, namely, "SADCC: Towards Economic Integration". The objective is to enhance the role of SADCC in promoting among its member States: "deeper economic cooperation and integration, on the basis of balance, equity and mutual benefit; providing for cross border investment, trade and freer movement of factors of production - labour

¹³ See the Annex for a reproduction of the Final Act of Lagos which specifically addresses the AEC.

¹⁴ Although events, especially political changes, are rapidly evolving in favour of the abolition of apartheid in South Africa, most African Governments have not as yet announced any change in their policies towards South Africa and both the United Nations and the Organization of African Unity resolutions on apartheid still stand (at the time of writing).

and capital - over national borders".¹⁵ The SADCC Conference endorsed this theme and agreed that it was timely, appropriate and represented a watershed for SADCC and the subregion as a whole. In the past, SADCC was the pre-eminent subregional 'cooperation' grouping, especially for the rehabilitation and development of transport and communication facilities. Its metamorphosis into an 'integration' grouping would necessitate some degree of coordination and possibly harmonization of policies and approaches between SADCC and PTA, bearing in mind that all SADCC member States except two (Botswana and Namibia) are also members of PTA and that the latter has been dealing with economic integration issues. In this connection, the PTA Summit of Heads of State and Government in January 1992 adopted a resolution expressing the PTA's willingness to merge with SADCC into a single regional organization for integration and cooperation.

79. Secondly, existing economic and other relations between the countries participating in the Southern African Customs Union Agreement (SACU), namely, South Africa and the BLNS countries (Botswana, Lesotho, Namibia and Swaziland) are also likely to change. The end of SACU is not necessarily in sight, although the suspension by South Africa of its participation in current efforts to reform SACU may have conveyed such an impression. All of the BLSN countries have a vital interest in SACU as it is through this mechanism that their economies have become integrated to a greater or lesser degree into that of South Africa. Also, it may be retrogressive to undo the economic integration and cooperation relationships maintained under SACU. SACU could possibly exist within the flexible integration arrangement envisaged by SADCC which would enable smaller groups of countries to move at their own pace through some or all aspects of the economic integration process.

80. Thirdly, the possible accommodation of a democratic and non-racial South Africa in the intra-trade of the subregion and other economic relations is likely to constitute a major element of subregional growth and development in the period ahead. The size of the economy of South Africa (GDP of US\$ 88.2 billion in 1988) could act as the locomotive for growth in the subregion. South Africa's strong economy, relative to that of all of the neighbouring countries combined (the aggregate GDP of SADCC countries, excluding Angola and Namibia, for which data are not available, was about US\$ 17.6 billion in 1988)¹⁶ is also likely to be a cause of apprehension and anxiety in the subregion. A *laissez-faire* approach to economic integration, in a subregion with gross economic disparities, might tend to entrench existing inequalities and imbalances. Rather than helping in the transformation of economies in the subregion, such an approach might lead to their exploitation as potential markets for manufactured goods from South Africa.

¹⁵ *Theme Document - SADCC: Towards Economic Integration* (SADCC, Maputo, 29-31 January 1992): p.1.

¹⁶ UNCTAD, *Handbook of International Trade and Development Statistics: 1990*, (United Nations publication, Sales No. E/F.91.II.D.1.); Table 6.1.

IV. SUMMARY AND CONCLUSIONS

81. Regional and subregional economic integration and cooperation are widely accepted as necessary for the long-term sustainable development of African countries. The African countries themselves in concert with the international community, as attested by various convergent policy declarations and statements, have emphasized and reiterated the continued validity of intra-African economic integration and cooperation, for its potential contribution to the economic growth and development of African countries. The consolidation of the African economic space, in particular, through the formation of subregional common markets leading eventually to a continental common market has been perceived as a primary goal. This objective has provided the main rationale for the establishment of subregional economic integration and cooperation groupings in Africa.

82. In recent years, parallel to the resurgence of interest in regional integration globally, intra-African economic integration and cooperation are being revitalized. However, if a viable and dynamic process of intra-African economic integration and cooperation is to evolve over the next few decades, then the revival has to be set in the context of a realistic appraisal of past experience and new realities.

83. Factors endogenous to subregional and regional economic integration and cooperation have formed important obstacles. The obstacles encountered and lessons derived from past experience show that existing economic conditions are not particularly favourable to intra-African economic integration and cooperation. Accordingly, African countries need to emphasize the establishment of an enabling environment for supporting regional and subregional economic integration and cooperation. This requires the removal of internal deficiencies facing groupings in the broad areas of institutional arrangements, and emphasizing objectives, policies and instruments.

84. Groupings serve as the main institutional instruments promoting regional and subregional economic integration and cooperation. Their proliferation in Africa, however, posed various obstacles. Many member countries are not able to meet their financial contributions to the groupings, owing to the heavy financial burden of multiple membership in two or more groupings. The existence of several integration and cooperation groupings within a subregion also increases the potential for duplication of functions. This in turn leads to uneconomical use of scarce human and financial resources. There is also a proliferation of acts and decisions from the high-level meetings of the many groupings which, from the national perspective, undermines their importance and applicability. Hence, an immediate priority for strengthening intra-African economic integration and cooperation is rationalization -- through dissolution, merger or convergence, where appropriate -- of the functions and activities of the various groupings as well as of the groupings themselves, especially within the subregional context. Institutional rationalization is even more relevant in the context of the establishment of an African Economic Community.

85. All the groupings have their objectives and timetables for achieving them. However, the implementation schedules have often been too ambitious. The desire to consummate the market-integration process as quickly as possible has led groupings to adopt timetables of short periods with the corresponding activities to be implemented at the same pace by all member States. This principle of 'unison in movement' in the shortest period possible has been difficult to apply in practice because of differences among member States at different development stages, with disparate trade and tariff structures and macroeconomic policies. Consequently, the timetables have not been kept. The pace of the regional integration process has consequently been determined by the country with the slowest rate of implementation. Attention should be placed on averting this problem in the new phase of adjustment underway in the process of intra-African economic integration and cooperation.

86. The adoption of a comprehensive, albeit gradual approach, appears appropriate for promoting and strengthening intra-African economic integration and cooperation. An approach which would focus on priority activities in the major sectors of intra-African economic integration and cooperation, then slowly building upon the progress achieved would lead towards achieving the objectives. A degree of flexibility is needed so that smaller countries within a grouping could move at different paces in some or all aspects of regional integration and cooperation.

87. Regarding the instruments of integration and cooperation, urgent priorities include the following: (a) the launching of trade liberalization programmes in the groupings which lack them, with their progressive enhancement through the removal of non-tariff barriers, increasing product coverage and expanding the depth of preferential tariff margins; (b) the launching and strengthening of subregional agricultural and industrial development programmes, activities and related issues such as investment promotion and enterprise development and cooperation; (c) the strengthening of the operational effectiveness of existing clearing houses and payments arrangements; (d) the enhancement of follow-up actions at the national level in response to decisions taken at the subregional level; and (e) the development and strengthening of infrastructural networks among member States of groupings. With regard to infrastructure, the drafting of bankable projects and effective mobilization of resources from domestic and international sources for financing projects are important.

88. The strengthening of intra-African economic integration and cooperation must also take into account the changing global and regional environment. One pertinent development is the evolving world economy which affects intra-African economic integration and cooperation through its impact on the external sector of African economies. The beginning of the 1990s marked new changes in the international economic scene; this has given rise to new challenges and opportunities, to which the groupings and their member States will have to respond. The ability of these groupings to respond to change can be improved if concrete measures are taken to strengthen the link between national and regional dimensions of development policies and programmes.

89. The second new development is the consolidation of regional economic space as an important aspect of economic growth and development in the evolving international trading system. In particular, it may be instrumental in bringing about international competitiveness of countries and enhancing their participation in the global economy. The revitalization of the process of intra-African economic integration and cooperation, as well as the launching of the African Economic Community, must be seen in this light. The AEC itself is a new reality, within which the process of intra-African economic integration and cooperation could be structured. Establishing the AEC will be a formidable task, requiring strong political commitment on the part of member countries along with substantive progress at the subregional levels in the promotion of economic integration and cooperation.

90. The third new development relates to issues which could arise in the context of subregional economic and social relationships in Southern Africa in a post-apartheid era. These may include, *inter alia*: some rationalization between PTA and SADCC, as the latter develops into an economic 'integration' grouping; the future of existing economic and other relations between the countries participating in the Southern African Customs Union Agreement (SACU); and the possible accommodation of the large South African economy in regional trade and other economic relations with its smaller neighbours.

ANNEX

The Final Act of Lagos, adopted by OAU Heads of State and Government meeting in their Second Extraordinary Session in April 1980 in Lagos, provided, for the AEC, an agreed plan of action and schedule of implementation which are reproduced in the box below.

Box 2 African Economic Community: Plan of Action

I. Plan of Action

Confirm our full adherence to the Plan of Action, adopted at the present Extraordinary Session of the Assembly of Heads of State and Government for implementing the Monrovia Strategy for the Economic, Social and Cultural Development of Africa and to adopting, among other measures, those relating to the setting up of regional structures and the strengthening of those already existing for an eventual establishment of an African Common Market as a first step towards the creation of an African Economic Community.

II. Implementation of the Plan of Action

A. African Economic Community

We reaffirm our commitment to set up, by the year 2000, on the basis of a treaty to be concluded, an African Economic Community, so as to ensure the economic, social and cultural integration of our continent. The aim of this community shall be to promote collective, accelerated, self-reliant and self-sustaining development of Member States; co-operation among these States; and their integration in the economic, social and cultural fields.

We are, consequently, authorising the Secretary General of the OAU:

- (i) to appoint, as quickly as possible, a Drafting Committee, at ministerial level, to prepare the draft of the treaty establishing the African Economic Community;
- (ii) to submit this draft for the consideration of the Assembly of Heads of State and Government scheduled for 1981.

B. Stages of implementation

To achieve this ultimate objective, We commit ourselves:

(1) During the decade of the 1980s to:

- (a) strengthen the existing regional economic communities and establish other economic groupings in the other regions of Africa, so as to cover the continent as a whole (Central Africa, Eastern Africa, Southern Africa, Northern Africa);
- (b) strengthen, effectively, sectoral integration at the continental level, and particularly in the fields of agriculture, food, transport and communications, industry, and energy;
- (c) promote co-ordination and harmonisation among the existing and future economic groupings for a gradual establishment of an African Common Market.

(2) During the decade of the 1990s to:

- (a) take steps for further sectoral integration through: harmonisation of our strategies, policies and economic development plans; promotion of joint projects, particularly in the above-mentioned economic fields; harmonisation of our financial and monetary policies;
- (b) take measures to effect the establishment of an African Common Market and other measures that would lead to the attainment of the aims and objectives of the African Economic Community.

To implement the Plan of Action at the various stages, we direct the Secretary-General of the OAU, in co-operation with the Executive Secretary of the United Nations Economic Commission for Africa, to take all the appropriate measures, in accordance with Part II, paragraph 7, of the Monrovia Strategy and to submit a progress report to the 1982 Session of our Assembly.

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REPORT OF THE EXPERT GROUP MEETING ON REGIONAL
AND SUBREGIONAL ECONOMIC INTEGRATION AND
COOPERATION AMONG DEVELOPING COUNTRIES

Held at the Palais des Nations, Geneva
from 3 to 5 December 1991

This report has been prepared by the UNCTAD secretariat. It does not purport to be a comprehensive account of the different points of view expressed by the participants during the meeting, nor does it necessarily reflect the views of the UNCTAD secretariat.

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- I. LIST OF PARTICIPANTS
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LIST OF ABBREVIATIONS

ACC	Arab Cooperation Council
ACU	Asian Clearing Union
ALADI	Latin American Integration Association
AMU	Arab Maghreb Union
APEC	Asia Pacific Economic Cooperation process
ASEAN	Association of South-East Asian Nations
CACM	Central American Common Market
CARICOM	Caribbean Community
CEAO	West African Economic Community
EAEG	East Asian Economic Grouping
EEC	European Economic Community
ECOWAS	Economic Community of West African States
ESCAP	Economic and Social Commission for Asia and the Pacific
GDP	gross domestic product
GCC	Cooperation Council for the Arab States of the Gulf
LAFTA	Latin American Free Trade Association
MRU	Mano River Union
NICs	newly industrialized countries
OAU	Organization of African Unity
OPEC	Organization of Petroleum Exporting Countries
PTA	Preferential Trade Area for Eastern and Southern Africa
R and D	research and development
RCI	regional and subregional economic integration and cooperation
SAARC	South Asian Association for Regional Development
UDEAC	Central African Economic and Customs Union

INTRODUCTION

1. Independent experts and representatives of intergovernmental organizations participated in their personal capacity in an Expert Group Meeting on Regional and Subregional Economic Integration and Cooperation (RCI) among Developing Countries, held in Geneva, Switzerland, from 3 to 5 December 1991. The list of participants is contained in annex I.
2. The purpose of the Meeting was to discuss, exchange views and advise the Secretary-General of UNCTAD on the process of regional and subregional economic integration and cooperation among developing countries in particular, and generally on interregional economic cooperation in the light of recent momentous changes in the international environment. The agenda of the Meeting is contained in annex II. The deliberations of the experts, summarized in this report, were wide ranging, reaching convergence on some issues and divergent positions on others.
3. A number of documents prepared by the UNCTAD secretariat served as background material for the Meeting. These included "Review of the economic integration experience of ALADI, ASEAN, CACM and ECOWAS" (UNCTAD/ECDC/217, 3 July 1991) and "Regional and subregional economic cooperation and integration among developing countries in the 1990s: adjusting to new realities" (UNCTAD/ECDC/Misc. 95)
4. The report is divided into five chapters. The first chapter provides a survey of the changing realities in the international scene and discusses the responses which are being evolved to accommodate these changes in so far as regional and subregional economic integration and cooperation among developing countries is concerned. The next three chapters dwell on the process of RCI respectively in Asia, Africa and Latin America and the Caribbean. The last chapter discusses some issues relating to interregional economic cooperation among developing countries.

Chapter I

NEW REALITIES AND NEW DIRECTIONS

5. The participants in the Expert Group Meeting expressed the view that the RCI process among developing countries should be reappraised and its future evolution charted against the backdrop of the momentous global changes of recent years, and on the basis of lessons learnt from past experience, especially in the 1980s.

A. New realities

6. Towards the end of the 1980s and the beginning of the 1990s, dramatic and spectacular changes in the international scene, both political and economic, have taken place. These included:

- (a) the sweeping changes in the configuration of political power in the world, with the end of 'super power' rivalry as a result of political disintegration in Central and Eastern Europe, and the collapse of the former Union of Soviet Socialist States and the system of government therein ;
- (b) the world-wide trend towards the adoption of market- and export-oriented models of development ;
- (c) the growing integration of the world economy reflected in the internationalization of production and financial markets, the rapid evolution of technology and the increasing importance of transnational corporations in global production and trade ;
- (d) the establishment of, or the proposals for, the creation of trading blocs around the main global economic centres -- the United States, European Community Economic (EEC) and Japan -- and the consequential trend towards the integration of markets around these centres ; and
- (e) the growing diversity of developing countries reflected in the widening economic gap between East Asia and the less dynamic subregions of Asia, Africa and Latin America.

7. These changes have generated new thinking, new attitudes and new approaches regarding the development problematique. In the developing world, the search for a fresh vision of development which is consistent with the new realities was manifested in their external economic policy reforms. Four main strands of policy adjustments which are gaining prominence in the developing world were noted by the participants in the Meeting.

8. One strand of policy adjustments focuses on enhancing the effective integration of developing countries into the world economy. This mainly relates to the switch from inward import-substitution-oriented policies to outward export-oriented and market-based policies of development with all their inherent features such as the liberalization of trade, deregulation of domestic economies, freeing of prices and removal of subsidies, free currency convertibility, privatization of State-owned production and marketing enterprises and liberal investment laws to encourage more foreign investment.

9. A second strand of policy reforms focuses on efforts to join existing trading blocs formed among developed countries, to be associated with them or to propose the creation of new trading blocs with them. The ongoing negotiations on the establishment of a North American free trade area between Canada, United States and Mexico and the hope of other countries in the region to follow suit is one example. Similar discussions are taking place between the Cooperation Council for the Arab States of the Gulf (GCC) and EEC and between the Arab Maghreb Union (AMU) and EEC on closer economic cooperation, including preferential trade

agreements. This trend typifies the ambition of many developing countries to secure a better deal with their major trading partners than would otherwise be the case from the discriminatory preferences that such blocs provide, and to safeguard their national interests concerning trade access, investment and aid.

10. A third strand of policy adjustments focuses on consolidating and accelerating the process of regional and subregional economic integration and cooperation among developing countries. Fresh thinking is being brought to bear on the nature, scope and character of RCI, and on the priorities and directions of policies in the period ahead, all of which are generating new momentum to the process. Member States of regional and subregional economic integration and cooperation groupings -- such as the Caribbean Community (CARICOM), the Economic Community of West African States (ECOWAS) and the Association of South-East Asian Nations (ASEAN), to name only a few of them -- have revised and updated their strategies, programmes and instruments of cooperation with a view to accelerating the attainment of the objectives laid down in their constituent treaties. In some cases, such as in ASEAN and ECOWAS, the original treaties themselves or the objectives therein are being revised and improved upon.

11. A fourth strand of policy reforms focuses on reviving economic cooperation among developing countries on a global scale. New efforts of this nature included the establishment of the Summit Level Group for South-South Consultation and Cooperation (Group of 15) which is forging ahead in launching a number of initiatives for fostering and strengthening cooperation among developing countries. These efforts are also being directed towards increasing the international community's awareness of South-South cooperation as an essential component of a viable development strategy for developing countries, such as the South Commission's Report entitled "The Challenge to the South".

B. RCI experience in the 1980s

12. In retrospect, the RCI process among developing countries suffered a major setback in the crisis period of the 1980s. Economic integration and cooperation groupings in all developing regions were confronted with difficult circumstances such as an acute lack of financial resources. Their institutional framework and cooperation mechanisms also proved inadequate to meet the crisis which member countries experienced in their external sectors. Moreover, trade and financial flows within groupings declined strongly and multilateral payments, clearing and credit arrangements collapsed or functioned at a low ebb.

13. It seemed evident to many participants in the Meeting that it was the critical shortage of foreign convertible currencies, juxtaposed with growing external debt and debt-service obligations, which was a major factor in the setback to RCI. It forced many developing countries to expand exports to areas with freely convertible currencies, primarily in developed countries, and to impose drastic import cuts from neighbouring developing countries as a strategy for conserving scarce foreign exchange to pay for the most essential imports, which tended to be available mainly in the developed countries. The exception to this experience was in South-East Asia where, even without formal institutional arrangements, regional trade and investment developed at an accelerating pace.

14. Several participants expressed the view that, for many developing countries, the international liquidity shortage was attributable in major part to the collapse of -- and persistently depressed -- commodity prices. It was stated that between 1980 and 1988, the commodity-dependent developing countries (excluding OPEC and NICs) suffered a terms of trade loss of US\$ 130 billion or an annual average loss of US\$ 16 billion. The rate of decline was even greater after 1989 because commodity export prices fell sharply and were now much lower in real terms than during the depression of the 1930s and the 1980-1982 slump which triggered the international debt crisis.

15. Some scepticism was expressed about the extent of the dynamic effects of RCI among developing countries, especially in terms of market integration. It was noted that even in the largest of integration groupings of developing countries, their combined gross domestic product (GDP) was relatively small. For instance, it was mentioned that the total GDP of the 16

countries of ECOWAS is smaller than that of Denmark; that of the 17 countries of the PTA is about 60 per cent of South Africa's GDP; and that of ASEAN, which includes some dynamic countries, is barely larger than Australia's GDP. Given the limited market size of these groupings of developing countries, it was argued that the integration of national markets through the creation of free trade areas and customs unions should no longer be the central feature of the RCI process.

16. Other participants, however, felt that the above pessimistic assessment of the RCI process should be qualified to take into account several factors. In the 1980s there were major difficulties in the world economy as a whole. Paradoxically, it was pointed out, RCI tended to make progress when the world economy was conducive to growth and development, as happened in the 1970s when trade and financial flows among developing countries were expanding. It was the 'sickness' of the international economic environment, rather than flaws in the rationale of RCI, which was a major factor affecting its momentum in the 1980s.

17. Furthermore, the support of developing countries for the spirit and objectives of RCI remained intact throughout the 1980s. The fact that only a very few developing countries do not belong to one or another regional or subregional economic integration and cooperation grouping was underscored by several participants in the Meeting. Why should this be so, the question was posed, if the overall result regarding RCI has been negative?

18. Most participants expressed the view that the performance of the RCI process among developing countries should not be subjected solely to an economic test as its rationale is multi-faceted and not exclusively economic. There are many motivations which encourage neighbouring countries within a region or subregion to group themselves together. In fact, wider political and cultural objectives are -- and could be -- pursued within the framework of RCI, such as education and training, health, science and technology, social and cultural cooperation, physical infrastructure development, protection of the environment (such as combating marine pollution or desertification), joint management of common resources (like river basins, coastal zones) and reduction of regional political tensions and conflicts.

C. RCI in the period ahead

19. The participants in the Meeting expressed the view that the changing international environment gave added relevance to, and provided new opportunities for, strengthening the RCI process among developing countries and enhancing its contributions to fulfilling development objectives.

20. On the political front, it was noted that there is growing recourse by the international community to international dialogue and negotiations in resolving global problems. In this context, the advantage of belonging to regional and subregional groupings where there tends to be greater strength in numbers cannot be overemphasized. Developing countries in particular would first need to secure greater leverage and more bargaining power by joining and acting together, rather than negotiating individually, if they are to promote more effective pursuit of their national and mutual interests in international negotiations such as those on structural adjustment, debt repayments, trade access or other issues. The experience of ASEAN countries in conducting regular dialogues, within the framework of ASEAN, with their major development partners such as EEC was referred to as a positive model which other regional and subregional groupings may wish to emulate.

21. On the economic front, the participants felt that the potential for realizing the dynamic impact of regional market integration should not be discounted. In the past, there has been strong resistance to preferential reduction of tariffs within trade liberalization programmes of integration groupings for various reasons, such as the fear of loss of tariff revenue or damage to domestic industries. Consequently, regional trade liberalization programmes have had to be tortuously negotiated, their implementation often delayed and their impact has been mostly negligible. Such resistance, however, is being eroded in the new context of overall import liberalization which is becoming the fashion in developing countries. It provides an atmosphere conducive to the acceleration of meaningful trade liberalization at regional and subregional levels. Indeed the launching and deepening of trade liberalization programmes of

integration groupings is crucial, against the background of overall liberalization, to ensure that regional producers continue to maintain some competitive edge over external imports. Such trade liberalization also has the added advantage of tackling problems of non-tariff barriers and, as a new element, it could also act as a building block for global liberalization of trade. It was emphasized that there was a possibility for progressing from subregional to regional and finally to interregional freer trade.

22. In addition, it was suggested that there was significant potential for smaller countries within groupings to benefit from the trading opportunities being made available from the opening up of large economies within subregions and from closer integration with them. This was possible, for example, in South Asia which has a potentially large regional market. It was pointed out that the middle class in this subregion numbered over 200 million people, which is more than the combined middle class population of France, Germany and the United Kingdom. In developing regions, enlarging the size of the internal market through regional and subregional trade liberalization could well tilt the balance for economies of individual countries towards being more competitive. Moreover, it was noted that even developed countries whose individual economies are quite large are also emphasizing wider economic space as a key factor in their growth and development.

23. Some participants underlined that for market integration within regional and subregional groupings to be successful, it needed to be complemented by a range of other measures involving cooperation and integration in the areas of production (industry, agriculture, energy, food) to promote the development and diversification of production bases, including through establishing networks of industries serving both regional and global markets; the mobilization of resources, both domestic and foreign, for investment into cross-border infrastructural -- especially transport -- development; marketing and distribution cooperation, such as through the encouragement of direct cooperation among economic operators (businessmen, industrialists, and traders); and the building of conducive monetary and financial structures such as capital market development to mobilize and channel domestic and foreign resources for investment, trade financing on competitive and affordable terms and the strengthening of clearing and payments arrangements (see subsection (2)).

24. Several participants added that the wave of economic reforms in developing countries included liberalization in the financial sector, such as the liberalization of exchange restrictions and movements towards greater currency convertibility. It was suggested that such liberalization improves the scope for tackling the question of investment within the context of the RCI process through the development of capital markets and financial institutions. It also enhanced the prospects for the establishment or improvement of regional development banking, regional venture and equity funds, regional stock markets and regional investment funds through wider spread of risks and investment portfolios emanating from the wider, financially liberalized, regional area. CARICOM, for example, is currently in the process of setting up a regional investment fund to encourage investment into new productive activities in its subregion. Financial deregulation within a region would also contribute to enhancing the mobilization of savings from the region and outside sources for investment, as well as help reduce capital flight from the region.

25. The view was expressed that it was important that trade and financial liberalization policies as well as more generally outward orientation of economies should be consistent with long-term integration objectives. Outward orientation which takes place within the framework of regional integration processes could be seen as improving capacities to achieve economies-of-scale and international competitiveness, thereby increasing participation in regional and global markets. If, on the other hand, outward orientation was at the expense of long-term integration objectives, as appears to have been the case in the 1980s, it would tend to retard the achievement of development objectives.

26. In addition, individual participants in the Meeting drew attention to a number of areas in which they felt the role of RCI could be enhanced, and these are summarized below.

1. Structural adjustment and aid

27. The view was expressed that the country-by-country approach to structural adjustment and stabilization has been one factor responsible for the disastrous deterioration of terms of trade of many developing countries, since it had the effect of setting countries into self-defeating competition with each other. This approach was considered to be unproductive even for its immediate purpose of laying the foundations for sustainable growth in the individual country concerned. A change in approach is required which would take into account the impact of structural adjustment programmes on neighbouring and other developing countries.

28. Adjustment programmes should not be inimical to the RCI process. In this regard, the following steps were proposed: giving consideration to the RCI dimension right from the initial designing stages of structural adjustment programmes; increasing efforts to harmonize macro-economic and sectoral policies within regions to reduce negative cross-border effects which may arise from structural adjustment; ensuring, within the overall outward-oriented structural adjustment approaches, that some regional trade preferences with regard to the flows of goods, services and factors are maintained; and designing appropriate structural adjustment packages which address the previously mentioned steps in practical and operational terms. It was stated that awareness about the regional dimension to structural adjustment was growing among the developing countries and the donor countries and agencies.

29. A provoking suggestion made by some participants in the Meeting was that participation in the RCI process could be made a performance criterion (part of "good governance") qualifying a country to balance-of-payments support, debt reduction and other concessions in international negotiations for financial support. This criterion should routinely be included in the discussion of aid consortia and consultative groups. Other participations, however, felt that an additional layer of conditionality was not in the interest of developing countries. They argued that, without an expressed desire for reforms within the Governments, any attempts to buy reforms, such as making collaboration in the RCI process a conditionality, was not likely to be sustainable in the long-run.

2. Multilateral clearing and payment arrangements

30. With regard to multilateral clearing and payment arrangements, it was noted that the operations of most arrangements had collapsed during the 1980s. The main problem in such cases, as in the Central American Clearing House, was the appearance of persistent debtor-creditor positions in intra-regional trade. The removal of this problem, it was stated, was imperative for the effective functioning of most multilateral payment and clearing arrangements.

31. The participants in the Meeting advanced several proposals for overcoming the persistent debtor-creditor problem. One proposal was the promotion of production and exporting capacities in the less advanced countries members of regional and subregional groupings which are usually the countries that build up cumulative deficits in regional trade. It was underscored that structural changes were an essential condition for a durable solution to the problem of structural imbalances in intra-regional trade.

32. The countries with large surpluses in intra-regional trade also have a role to play. Mechanisms should be established to encourage them to: increase imports from deficit countries; provide long-term credits to deficit countries; or make investments in productive activities in deficit countries. However, it was pointed out that countries acquiring surpluses in intra-regional trade are often themselves in heavy foreign-exchange shortage against the rest of the world. This provided a strong and urgent case for external financial support to multilateral clearing and payment arrangements.

33. It was also argued that external support -- both financial and technical -- to clearing and payment arrangements should be rendered by regional development banks, international financial institutions and developed countries with experience in this area, such as EEC. The latter was already providing technical and financial support for the revitalization of the Central American Clearing House.

34. Mention was also made of the value of new mechanisms by which operations of clearing arrangements could be strengthened. An example was the launching of PTA travellers cheques with settlement carried out through the PTA clearing house (see also paragraph 70). A more radical proposal was to take up one of Keynes's proposal of injecting liquidity to facilitate trade expansion by the creation of a currency or 'bancors'. Regional development banks could examine the feasibility of creating regional 'bancors' to finance intra-regional trade. In time, a South bancor could be evolved from the regional ones, if the latter prove successful, for facilitating interregional trade.

35. Several participants added that the phenomenon of persistent debtor-creditor positions in intra-regional trade indicated unequal distribution of the integration benefits among countries of different economic size. There was a tendency for the polarization of the benefits in the more advanced countries. It was thus important to establish arrangements for spreading the benefits around, particularly towards the less advanced countries. The options in this regard should not necessarily focus on fiscal compensation schemes for loss of tariff revenue, but should rather emphasize direct measures in the areas of finance and technical assistance to promote productive activities and expand export capacities.

3. *Trading blocs*

36. Most participants in the Meeting were of the opinion that an issue of topical interest in the coming years would be the establishment of close economic ties between developing and developed countries at the regional and subregional levels. This may involve the formation of trading blocs. Major impetus towards this trend in Latin America was being generated by the North American free trade area initiative. The 'Enterprises for the Americas' initiative of the United States, though still at the talking stage, is also adding momentum to this trend as one of its main proposals is the creation of free-trade agreements between the United States and Latin American countries. Developing country groupings, such as AMU and GCC, are also negotiating closer economic linkages with major developed countries as previously mentioned in paragraph 9.

37. Another form of cooperation between developing and developed countries at the regional and subregional levels may centre on economic policy cooperation for mutual benefit. This approach was exemplified by the Asia Pacific Economic Cooperation (APEC) process which is concerned with consultation, cooperation and co-ordination on macro-economic policies (see also paragraph 48).

38. The trend towards regional and subregional integration and cooperation between developing and developed countries has both positive and negative implications. Some of the benefits would include: enhanced bilateral donor support for development projects of developing countries such as their process of mutual economic cooperation and integration; and enhanced dynamic benefits of market integration such as trade, investment and technology transfer from preferential trading and investment programmes. The potential negative effects would include: the alienation and marginalization of developing countries which are not members of any co-operation arrangement centred around major developed countries; and the fragmentation of the world trading system away from the ideal of a single unitary trading system to some kind of a federal system composed of semi-autonomous blocs which are co-existing, some times uneasily, with one another. The participants in the Meeting agreed that implications of the formation of trading blocs on developing countries deserved in-depth analysis.

4. *Cooperation between groupings*

39. Many participants in the Meeting stressed the value of cooperation among regional and subregional integration and cooperation groupings. There was much for groupings to learn from each other's experiences. There was also a need to examine how best to promote economic linkages among groupings. East Asia was likely to remain the area of dynamic economic growth and expansion in the 1990s. Less dynamic regions of Asia, Africa and Latin America would stand to benefit by making efforts to be more closely integrated with East Asia. A number of suggestions were made to promote greater interaction between groupings, including

institutional arrangements whereby the capital-surplus NICs could be encouraged to invest in productive sectors in less dynamic developing subregions, and reciprocal trade preferences exchanged on an across-the-board basis.

40. Regionalism also provided a basis for facilitating the development of successful export-oriented industries. It was argued that the export of NICs, particularly the Republic of Korea, was based on a kind of import-substitution for export-promotion strategy. This involved the establishment of export industries, after carefully analysing their potential, which began producing by importing all needed inputs and then gradually reducing the import content of the exported goods. The initial problems encountered in identifying and developing such industries for developing countries which are now pursuing similar paths could be alleviated through regional cooperation within and between integration groupings.

5. Science and technology cooperation

41. The view was expressed that inter-developing-country scientific and technological cooperation should be increased, especially as a number of developing countries now have a fairly well-developed scientific research establishment. The provision of tertiary training, R and D, and higher education institutions, for some developing countries, are best organized on a regional basis, especially where numbers to be trained are too small for justifying a national training facility and when the cost of establishing such a national facility is high. It would include, for example, the establishment of regional higher education institutions (universities), centres of excellence (research bodies), vocational and training centres in specialized fields.

42. Scientific and technological cooperation among developing countries is important for facilitating the development of technological capacity in a regional context, especially in less advanced countries or subregions, and also for enhancing human resources development. It is important too for addressing the crucial problem of food self-sufficiency, especially in the context of Africa, which has a rapidly growing population. Improvements in the production of food could be developed through the establishment of regional agricultural research and demonstration stations which conduct R and D in seeds, fertilizers and pesticides and whose results are widely distributed for application by member countries.

6. International support

43. Several participants in the Meeting expressed the view that active support from the international community for the RCI process should be evolved as part of overall support for the process of South-South cooperation which is geared to increasing the developing countries' participation in, and contribution to, the world economy as a whole. Major donor countries and international financial institutions needed to consider channelling financial aid to individual regional and subregional groupings in support of their various integration and cooperation programmes and projects. Such support can be instrumental in enhancing the viability of such activities in view of the general paucity of financial resources available to the groupings.

44. In this connection also, it was agreed that one way of expanding intra-regional trade was by extending the scope of 'triangular transactions' financed by industrialized countries. Such transactions are already familiar in the case of food aid such as the purchase of maize surpluses from Zimbabwe for food aid to Zambia -- in this way helping both countries simultaneously. The scope for the extension of such transactions to financial aid, and the consideration of the mechanisms that would be needed, should be examined. In a similar context, another proposal related to counterpart funds which arise not only from food aid (which was the origin of the initial interest) but also from financial aid. These funds now represent considerable magnitudes. It was thus suggested that such counterpart funds accruing to countries which take part in regional cooperation schemes could be earmarked to support such schemes and to cover intra-regional trade balances, if needed.

45. The point was also made that the role of the regional development banks and the United Nations regional economic commissions in promoting regional integration and cooperation should be strengthened. These institutions in the past have given limited support to the proc-

ess of RCI in their regions. This lack of support, it was suggested, arose from the limited budgetary resources of these institutions or from a deliberate act of policy. It would appear that the Governments members of these institutions (including developed countries), which formulate the main policy guidelines of these institutions, have not been convinced of the benefits of supporting the RCI process among developing countries.

46. A case for international support for the RCI process among developing countries, however, can be made as, ultimately, it is in the interest of the global community. It can only be made through education, persuasion and, above all, through showing that the disadvantages to Governments will be more immediate than the advantages of not supporting RCI. Priority should thus be placed on re-examining the advantages of RCI and disseminating the findings to developed and developing countries more aggressively than in the past. There is already some evidence of a willingness in member Governments of regional development institutions to increase support for RCI. For example, the Economic Commission for Africa, the African Development Bank and the United Nations Development Programme are jointly providing financial and technical assistance to OAU in support of its efforts on the establishment of an African Economic Community (see also paragraph 71).

Chapter II

REGIONAL AND SUBREGIONAL ECONOMIC INTEGRATION AND COOPERATION IN ASIA

47. The discussions by the participants in the Meeting on the RCI process in Asia were focused on South and South-East Asia which, it was suggested, had been rejuvenated by three emerging interconnected developments.
48. The first development was the APEC process, an Australian initiative which was launched in 1988 with the support of the United States. The APEC process brings together 15 Pacific Rim countries including Australia, Canada, Japan, New Zealand, United States and several developing East-Asian countries such as the Republic of Korea and China, which joined only recently. The APEC process was regarded as an initiative geared to the creation of a Pacific Rim entity which would pursue cooperation objectives, especially regarding close consultation on economic policies.
49. The second development was the East-Asian Economic Grouping (EAEG), first proposed by Malaysia. The EAEG envisaged an Asian grouping covering ASEAN plus the other East Asian countries of the Pacific Rim such as Japan, but not the non-Asian trans-Pacific countries such as the United States. The EAEG proposal immediately came into conflict with the APEC process since it was seen by some countries, especially those that were to be excluded, as detracting from the more open APEC process. As a compromise, the original proposal has been downgraded from a trade bloc concept to that of a consultative forum on economic policy to be known as the East-Asian Economic Caucus but, even in this diluted form, the idea is still meeting with resistance.
50. The third development was the idea of promoting a pan-Asian grouping covering South and South-East Asian countries proposed by the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP). The aim was to set up a facility in ESCAP which would bring together the Asian countries and encourage them to interact on economic matters. There has, however, been opposition to this initiative. Several ESCAP member countries view its pan-Asian exclusiveness as yet another attempt to detract from and derail the APEC process.
51. Apart from the new ideas concerning formal arrangements for economic integration and cooperation, it was pointed out that trade and financial flows within the Asian region are increasing as a result of market forces. Japan, for example, had been investing in the region for quite some time and continued to do so. Taiwan (Province of China) has been investing some of its surplus capital in the Philippines and Indonesia, while Thailand and its entrepreneurs are now seeking new areas of opportunities for investment, particularly in mainland China. Surplus capital from the Republic of Korea was moving into the East-Asian region in search of cheap labour and investment opportunities. Hong Kong and even India were also increasing their capital flows to other countries within the region. It has thus become increasingly evident that the major source of capital investment into the South-East Asian region was from within the region.
52. This process of increasing regional economic interactions and integration without formal arrangements brings a crucial dilemma to the forefront of the RCI process. On the one hand, formal regional institutional arrangements may not necessarily be essential for export success and concomitant production diversification, as suggested in the experience described in the preceding paragraph. On the other hand, some participants in the Meeting considered that formal regional institutional arrangements are required to ensure that structural adjustment is carried out by the more advanced Asian countries (the NICs), moving out of traditional labour-intensive manufacturing industries and moving up-market into more technologically advanced industries and capital goods production; and leaving the vacated industries to be developed by the 'new' NICs of Asia and other countries which are moving into the export-oriented manufacturing sectors.

53. The participants in the Meeting also examined the performance of two existing subregional groupings, namely ASEAN and the South Asian Association for Regional Cooperation (SAARC). ASEAN, it was suggested, has not achieved much in the 'hard core' economic issues. Intra-ASEAN trade makes up only a fraction -- less than 10 per cent -- of total trade of the region and has also been expanding at a slower rate -- 4 to 5 per cent -- than the region's total exports. Moreover, although ASEAN had developed several regional investment plans, progress towards establishing joint industrial projects has been limited. A major impediment was the negative attitude of member States towards granting preferential market access to the products of each industrial project.
54. ASEAN has, however, been attempting to improve its performance in the economic sphere, and some of the recent initiatives in that direction include: the approval by the Fourth ASEAN Summit, in January 1992, of the creation of an ASEAN free-trade area within 15 years. ASEAN was also taking new measures to improve its institutional structures and external co-operation with its major trading partners and aid donors.
55. It was noted that South Asia is being left out of the economic alliances that were being evolved globally. Some participants in the Meeting expressed the view that, apart from India, which as a major economic power may be invited to join some of these emerging economic alliances, other countries of Southern Asia (Bangladesh, Pakistan, Sri Lanka) would face the danger of being marginalized. It was suggested that such a trend could be avoided through formation of closer economic links between South Asia and East Asia now that there was a strong case for such cooperation as the South Asian countries are adapting more market- and export-oriented development policies.
56. It was further suggested that the best way in which South Asian countries could link up into the wider Asian region as well as to the world was to strengthen their regional economic integration and cooperation process. This means strengthening SAARC so that it would make effective contribution to South Asian countries in diversifying their production structures, stimulate growth and gradually, as their potential as a market became manifest, cement their relationship with South-East Asian countries.
57. SAARC also has other potentials. Political tensions in the subregion have been occurring and are likely to continue. SAARC, as a regional entity, could play a major role in moderating these tensions. Likewise, South Asia, like other developing subregions, was characterized by low levels of intra-regional trade flows. SAARC could provide the institutional framework to stimulate and strengthen trade among South Asian countries. As a start in this direction, it was proposed that the SAARC countries could begin with the implementation of an across-the-board tariff margin of preference for selected local products. Such a move would not only increase intra-regional trade, given the existing high national tariff structures, but would give the right signals to economic operators to focus more on regional investment and trade.
58. SAARC, which was established six years ago, has only recently launched discussions on trade cooperation. Some participants in the Meeting pointed out that the economic size of India could be a major barrier to the incorporation of trade into the SAARC agenda for cooperation. The economic dissimilarities between India and other SAARC States such as Sri Lanka are particularly acute. This may create imbalances if there were intra-regional liberalization of trade: for example, products from India could flood the market of other SAARC countries.
59. Therefore, what was needed, it was stressed, was for India to play the lead role in carrying forward the recent endeavours towards trade cooperation in SAARC. For example, in the current process of unilateral liberalization of market access by India, special attention could be given to products of interest to other SAARC countries. Such an act could go a long way in reducing the psychological barrier to trade cooperation and help build confidence in SAARC. Smaller countries also need to be convinced of the economic rationale of SAARC for them. For example, access to the Indian market for products of other SAARC countries could give a substantial boost to their trade.¹

¹ In this connection, the SAARC Summit of Heads of State in Colombo (Sri Lanka) in December 1991 agreed to the creation of a preferential trade area.

60. Some participants in the Meeting observed that a major asset of SAARC in the context of its relations with the rest of the world was cheap labour. This asset could be exploited to enable SAARC countries to enhance their integration into the wider Asian region as well as globally. Nevertheless, it was also underscored that cheap labour was only cheap in relation to its efficiency. Cheap labour that was unproductive was not cheap but expensive. In this connection, the link between labour productivity and technology was stressed as also was the need for cooperation in building technological capacities in SAARC and also in other subregional groupings of developing countries.

61. As far as West Asia was concerned, the view was expressed that, although pan-Arab identity as a driving force exists, subregional economic integration has had very meagre results. The League of Arab States, for instance, had made very little progress towards its objectives of economic and financial integration, especially the establishment of an economic union. The major obstacle to economic integration and cooperation has been the various political uncertainties in the region including those arising between Arab countries. Two subregional groupings have been established to promote economic integration, namely the Arab Cooperation Council (ACC) and GCC. ACC, however, following its establishment in February 1989, was subsequently undermined by the political crisis in the Persian Gulf between Kuwait (a member of GCC) and Iraq (a member of ACC).

62. The Asian region, it was pointed out, had a degree of success in financial cooperation. Some participants in the Meeting noted that the smoothly functioning Asian Clearing Union (ACU) has played a useful role in supporting regional financial and trade integration and cooperation among its member States. ACU has also launched new initiatives which were strengthening its operations, such as the creation of a swap arrangement facility. It could play an even greater role in promoting regional economic cooperation if its current membership was extended to include other non-member Asian countries.

Chapter III

REGIONAL AND SUBREGIONAL ECONOMIC INTEGRATION AND COOPERATION IN AFRICA

63. It was generally accepted that RCI, including in terms of integration of national markets, is an essential condition for the development of African countries. Larger internal market size and economies-of-scale are essential for supporting the economic expansion and sound industrial development of the mostly small economies of African countries. In addition, the legacy of colonial influence, particularly in West Africa, which fostered the development of inter-linked enclaves for supplying raw materials to the metropolitan centre, had rendered regional integration and cooperation indispensable for the newly independent African countries emerging from such enclaves.

64. Yet, it was also argued that the economic rationale for RCI in Africa requires some critical scrutiny as intellectual doubts still persisted about the extent of its contribution to growth and development in Africa. In the first place, the theory of enlarged market potential was not particularly evident. For example, the countries with the largest economies -- such as Ethiopia, Nigeria, Sudan and Zaire -- have been experiencing declining economic performances in recent years, while the best economic performances were recorded by the smaller countries such as Mauritius. In the second place, the economies-of-scale argument was also weak. In Africa there were only a few industries in which such economies-of-scale could be realized. In the third place, there have been very few concrete results emerging from the process of RCI in Africa despite the evident strong political support it receives from African countries. Proponents of this view nevertheless agreed that there is potential for regional integration and cooperation among African countries in some selected economic sectors such as food, energy and infrastructure.

65. Several examples of the formation of subregional groupings in Africa were cited. The creation of the Central African Customs and Economic Union (UDEAC) was based on a desire to maintain a certain cohesion among French-speaking countries of the subregion. The main aim of these countries was to maintain the system of common economic management established between them under French colonial administration. However, the UDEAC countries have progressed further towards building a common monetary system whereby they have one central bank and one monetary policy authority. In addition, the UDEAC countries apply generalized customs preferences among themselves and they have harmonized their tax systems. Besides this, it was pointed out that UDEAC has survived several *coup d'états* which took place in a number of its member States.

66. As regards West Africa, mention was made of the confluence of different colonial and ethnic backgrounds which led to the establishment of numerous intergovernmental organizations for economic integration and cooperation. There are three integration organizations in the region, namely: the 16 member State ECOWAS, the 7 francophone member State West African Economic Community (CEAO) and the 3 anglophone member State Mano River Union (MRU). The membership of ECOWAS consists of the membership of CEAO and MRU. All these three groupings share the same ambitious goal of economic union.² In addition to these multi-sectoral groupings there are numerous specific sectoral cooperation organizations, such as those for cattle development, control of drought and desertification and cooperation on health.

67. The proliferation of organizations for integration and cooperation in West Africa raised two major problems, particularly for countries that were members of more than one organization, namely: (i) co-ordination of the activities of the various organizations at the national and regional levels became extremely difficult; and (ii) the payment of annual financial contributions to all these organizations became a heavy burden for the countries concerned. Recently, on

² It was noted that CEAO and to some extent MRU, the smaller groupings, have been more successful in promoting RCI than ECOWAS in the past. For example the share of trade among CEAO countries in their total exports is higher than the comparable ratio for ECOWAS countries as a whole.

the basis of a rationalization study, the 1990 Summit of Heads of State of ECOWAS adopted a decision designating ECOWAS as the sole entity for economic integration and cooperation in West Africa. This decision, it was noted, implied the absorption of both CEAO and MRU into ECOWAS. The exact nature of such a merger is yet to be determined.

68. In Southern Africa, PTA, which is not a preferential trade area as such but an economic integration grouping, is making a conscious effort to learn from the problems of others and from its own experience. Considerable progress has been achieved by PTA in the field of trade liberalization and facilitation as well as monetary and financial cooperation. In line with the spirit of the PTA Treaty, a Trade and Development Strategy has been elaborated which establishes the priority sectors for development with a view to transforming PTA into a common market by the year 2000.

69. PTA has also been considering, among other things, the adoption of special measures in favour of economically less advanced member States to ensure that they also benefit from regional integration. It furthermore recognized that the main actors of economic integration are the business community and, although the latter were not involved in the formation of PTA, considerable efforts have subsequently been made to incorporate them into PTA activities in order that they become better informed of trade liberalization measures and can take advantage of these measures, as well as contribute to policy making regarding RCI. For example, with the help of the business community PTA revised its rules of origin provision, which had been found to be too restrictive.

70. Another example of continual adaptation within PTA was the PTA Clearing House. Its operations have improved owing, among other measures, to the launching of PTA travellers cheques which were being widely used throughout the PTA region. Consequently, it was noted that the bulk of intra-regional trade (above 50 per cent) was being channelled through the Clearing House and the proportion of transactions settled in convertible foreign currency had dropped considerably from 85.7 per cent in 1985 to 33.7 per cent in 1991. Further plans are being developed for channeling all PTA trade through the clearing house. PTA was also preparing for monetary harmonization and a detailed time-table had been established for this purpose which covered: (i) establishment of equilibrium exchange rates, (ii) reduction of fiscal deficits to a certain level, and (iii) monetary harmonization by the year 2000.

71. The beginning of the 1990s has seen new initiatives being launched to strengthen the process of RCI in Africa. For example, as noted earlier, ECOWAS was addressing the problem of proliferation of integration and cooperation organizations in West Africa and PTA was preparing for monetary harmonization. Most significantly, the OAU Heads of State and Government met in Abuja (Nigeria) in June 1991 and adopted a Treaty establishing an Africa Economic Community over a period not exceeding 35 years following the Treaty's entry into force. A number of participants in the Meeting noted that this initiative was not only a sign of renewed political interest, as it had involved considerable background political negotiations, but it was also part and parcel of the broader endeavour being undertaken by subregional groupings to give new impetus to economic integration and cooperation among African countries.

72. It was also noted, as a positive sign, that the international community was paying greater attention to the role of RCI in promoting development in Africa. Institutions such as the World Bank which have traditionally entertained doubts about the relevance of regional integration were now beginning to develop activities in this area.

73. Another example of growing international support for the concept of economic integration and cooperation among African countries was exhibited during the Maastricht Conference of the Global Coalition for Africa (July 1990), in which EEC agreed to play the role of "animateur" for discussions on regional cooperation. In this connection, it agreed to prepare a paper on RCI for the next meeting of the Global Coalition for Africa in May 1992. EEC undertook this task for several reasons which placed it in a better position to measure progress made in terms of successes and failures in regional cooperation, namely: EEC itself is an example of a successful regional integration and cooperation grouping; it has an operational experience of 15 years; and it is sympathetic towards RCI efforts of developing countries. Nevertheless, it was pointed out that the example of EEC should be used to draw from its experiences and not to serve as a model to be emulated by the African countries.

74. Some participants in the Meeting stressed that this new phase of adjustment in the process of RCI in Africa must focus on maintaining the momentum which has recently been generated. This requires strong political will and support of countries which will be forthcoming only if RCI is perceived by the leaders and peoples as being in their national interest. It also requires improving and consolidating the process of RCI in priority sectors, including the following:

- (a) Adoption of appropriate procedures for progressing towards market integration, including especially integration on a gradual basis in selected products with intra-regional trade potential such as fuels and food. It was stressed that maintaining food security is a political imperative in many African countries. In addition, trade liberalization needed to be coupled with integration and cooperation in industrial development and investment. Promotion of investment could be pursued through regional investment forums, establishment of regional investment offices (which develop projects, bring investors together and promote investment) and the harmonization of national investment codes and laws ;
- (b) Enhancing progress towards financial and monetary cooperation through strengthening of multilateral clearing arrangements, improving the availability and volume of trade credits for intra-African as well as extra-African trade, addressing the problem of over-valuation of some local currencies which impeded competitiveness, and other issues related to co-ordination of monetary policies ;
- (c) Establishment of compensation schemes if needed to compensate countries, especially the less advanced States members of groupings, for tariff revenue losses arising from their participation in intra-regional trade liberalization ;
- (d) Enhanced cross-border cooperation in the rehabilitation and development of transport and communication networks ;
- (e) Strengthening institutional capacity building which supports regional integration including, where appropriate, a rationalization of cooperation institutions ;
- (f) Greater involvement of people in forging closer regional and subregional links through the creation of mechanisms for social and cultural cooperation and through the establishment of regional parliaments ;
- (g) Increasing the involvement of major economic actors (the business sector) in fostering closer regional economic ties by encouraging and inviting them to participate in regional negotiations on trade, as well as to assist in the implementation of decisions adopted at regional levels ; and
- (h) Making participation in integration and cooperation activities more flexible so that countries can join the process after it has started without too much difficulty.

Chapter IV

**REGIONAL AND SUBREGIONAL ECONOMIC INTEGRATION AND COOPERATION
IN LATIN AMERICA AND THE CARIBBEAN**

75. It was observed that the RCI process in Latin America and the Caribbean flourished in the post World War II period. During that period multi-sectoral integration organizations were instituted, without exception, to promote import-substitution development at the regional level. They had two main features: regional trade expansion through trade liberalization and regional industrial development through complementary industrial agreements.

76. On the mainland the Latin American Free Trade Association (LAFTA), established in 1960, was the forerunner of the integration organizations. LAFTA, however, encountered two major difficulties: firstly, LAFTA countries ran out of items to liberalize and trade in, given that most industrial products were protected under national import-substitution policies. Secondly, a few countries, especially the larger ones such as Argentina, Brazil and Mexico, were seen to be the major beneficiaries of the industrial agreements.

77. The dissatisfaction with integration under LAFTA led to its replacement by the Latin American Integration Association (ALADI) in 1981, and to the formation of the Andean Group in 1969 by the smaller countries of LAFTA. Both the Andean Group and ALADI attempted to hasten the pace of trade liberalization and promote balanced regional industrial development. Nevertheless, both organizations had limited success mainly because, as in the case of LAFTA, many products for trade and industrial development were still excluded from intra-regional trade and industrial schemes. It was noted that this stalemate was again due to strong national protectionist tendencies.

78. The Andean Group, for example, adopted an industrial programming scheme which was based on the granting of monopoly rights to selected member States for establishing certain regional industries. However, all member States wanted to set up all the proposed industries. Thus the three regional industries identified -- namely, petrochemicals, automotive parts and steel -- were never really established. The Andean Group also attempted to harmonize external economic policies of member countries within the framework of the Andean Finance Corporation, but this met with limited success. Financial cooperation was finally launched in the form of the Andean Reserve Fund which distributed its Andean Pesos among member central banks according to their needs for current account transactions.

79. The RCI process in Central America was co-ordinated by the Central American Common Market (CACM) which was established in 1961. The Central American integration process advanced rapidly towards the formation of a common market which expanded intra-regional trade and industrial output. One reason behind this success, some participants in the Meeting suggested, was the fact that the Central American region had a small industrial base. Hence the application of a regional import-substitution model did not conflict drastically with vested national interests. Unfortunately, in the 1970s and later in the 1980s, political problems within the region stifled and thwarted the RCI process in Central America.

80. In the Caribbean, the Caribbean Free Trade Area (CARIFTA) was established in 1967 to promote regional cooperation. CARIFTA, it was suggested, faced similar problems to those experienced by the integration groupings in mainland Latin America regarding trade liberalization. It was subsequently transformed in 1973 into CARICOM.

81. During the 1970s, the pursuit of import-substitution policies became increasingly inconsistent with regional integration. Some participants in the Meeting pointed out that, owing to the emphasis on import-substitution, countries were generally not opening up to intra-regional trade. Instead, they were adopting policies to protect their internal markets for their local industries as well as supporting these industries in exporting their output to other neighbouring countries.

82. This policy prescription was also pursued within subregional groupings whereby member States endeavoured to promote, whenever possible, the exports of their national industries. It generated tension among the member States, especially between the less advanced countries on the one hand and the more advanced countries on the other; the former group of countries were constantly attempting to minimize the domination of intra-regional trade by the latter group of countries. These tensions acted against intra-regional trade liberalization and blocked progress in regional market integration. In addition to these internal problems, the debt crisis exploded in the 1980s and the combined impact was a drastic decline of the RCI process in Latin America and the Caribbean.

83. Towards the end of the 1980s and the beginning of the 1990s, several processes had evolved which gave new vitality to the whole process of RCI in Latin America and the Caribbean. Two such developments, as mentioned earlier, were the North American free trade area proposal and the 'Enterprise for the Americas' initiative of the United States. It was suggested that the fear of being excluded from the United States market or being disadvantaged has stimulated the interest of most Latin American countries in these proposals for the establishment of free trade agreements with United States. For example the four-nation Southern Cone Common Market, a new grouping formed in March 1991, was considering accepting as a group the free trade area proposal of the 'Enterprises for the Americas'. Other groupings in the region are also reviewing this United States' initiative.

84. Arising from the above process and from other developments in the world economy, perceptions of the opportunities offered by regional integration and cooperation are changing. It was noted that, within the overall trend towards general liberalization and the dismantling of protectionist barriers maintained under import-substitution policies, many countries are now willing to consider reducing their list of products which are excluded from preferential treatment. Thus, the intra-regional trade liberalization process could be accelerated and consolidated.

85. Several participants in the Meeting indicated that RCI is now being viewed as covering a wide spectrum of issues and not just trade. CARICOM, for example, had striven to extend the dimensions of regional integration and cooperation beyond pure trade concerns. In addition to efforts geared to developing a common market -- such as a common external tariff, harmonization of fiscal incentives and common rules of origins -- CARICOM is also aiming to establish a regional court of appeals, stimulate political cooperation through the formation of a regional Assembly (Parliament), and support greater people participation. In the latter respect, a West Indian Commission of Eminent Persons was appointed to consult with a wide spectrum of social groups on their role in the integration process and to make recommendations.

86. CARICOM's manifold activities also cover the following areas: free movement of people, establishment of a Caribbean Investment Fund, formation of one regional university, common disaster assistance institutions and common approaches to international negotiations (such as with United States on the Caribbean Basin Initiative or EEC on the Lomé Convention), environmental issues and security arrangements. Another sector which offers scope for regional co-operation through CARICOM is tourism, one of the most rapidly growing export industries in the Caribbean.

87. The progress in Latin American financial integration, reflecting the trends of general economic integration, has also been modest. The Andean Reserve Fund and the ALADI clearing arrangement have been able to operate at modest levels without encountering serious difficulties. The Central American Clearing House and the CARICOM clearing facility, however, had suspended their activities as a consequence of the unsustainable accumulation of arrears within these arrangements. In recent years, with the assistance of EEC, the Central American Clearing House was being revitalized; the CARICOM facility, however, continues to be suspended.

88. Reviving and strengthening the RCI process in Latin America and the Caribbean will be a major task in the 1990s. Among the essential requirements for fulfilling this task, the participants in the Meeting singled out the following (some of which are already being implemented):

- (a) Reappraisal and replacement of the traditional approach to RCI based on import-substitution by a more open approach that is consistent with the general trend towards greater liberalization and integration into the world economy ;

- (b) Greater regional cooperation in enhancing the current process of privatization and deregulation, especially of public utilities (telecommunications, airlines) ;
- (c) Greater co-ordination of macro-economic policies at the regional level, such as on national policies pertaining to agricultural subsidies and exchange rates ;
- (d) Establishment of regional investment funds to develop new productive activities, such as the ongoing effort to create a Caribbean Investment Fund.³ The Fund will provide capital investment for new productive activities for exports to national, regional and international markets ;
- (e) Greater cooperation on environmental issues in the light of growing domestic concern over this sector. There is an attempt currently to create a regional organization to protect the Amazon area ;
- (f) Increasing support for the development of economic and trade relations among the border areas of developing countries sharing common territorial land borders. The border areas are natural trade blocs as they tend to be better integrated with one another through border trade. Their development could act as a catalyst for broader economic cooperation among the countries involved ; and
- (g) Establishing an open multilateral forum among the Latin American and Caribbean countries involved to debate more seriously and less emotionally the problem of drugs.⁴ Although dealing with the problem of drugs was a global one, meaningful dialogues cannot take place easily between individual Latin American (producer) countries and the United States (a consumer) owing to sensitivities regarding domination of the dialogues by the latter. There was thus a need for a more open multilateral framework.

³ Following the development of a common investment code, especially in terms of profit remittances, negotiations will be launched by CARICOM with international financial institutions and institutional investors to invest in the Fund.

⁴ It was noted that the coca and cocaine industries succeeded in establishing, among Latin American and Caribbean countries, close regional networks among producers, consumers and distributors to carry out trading transactions.

Chapter V

INTERREGIONAL ECONOMIC COOPERATION

89. The concept of interregional economic cooperation among developing countries, as in the case of regional and subregional integration and cooperation, has received renewed emphasis in recent years. The formation of the Group of 15 is one sign of this revival.

90. Most participants in the Meeting underlined the continuing relevance of the concept of an integrated developing world, despite some doubts being expressed about it. Firstly, it was noted that the policies of unity, solidarity and enhanced bargaining power in multilateral negotiating forums continued to be crucial to developing countries despite their growing differentiation. The developing countries still needed to collaborate to bring about a reform of the existing global economic system, which gives them a limited or negligible say in the management of the world economy.

91. The largest manifestations in which the developing countries united to speak with one voice and to resolve their differences were in the Group of 77 and the Non-Aligned Movement. The Group of 77, in collecting and collating the various interests of developing countries as a group, was instrumental in developing a single platform for negotiation. It was thus an important framework for developing solidarity among developing countries. Some participants in the Meeting felt that there was no better alternative in prospect.

92. There are also strong economic grounds for greater cooperation among developing countries globally. In the area of trade it was noted that the developed market-economy countries, with less than 25 per cent of the world's population, conduct about 60 per cent of world trade with one another. In contrast, the developing countries, with more than 70 per cent of the world population, conduct less than 10 per cent of world trade with one another. This gap, which cannot be explained by underlying economic conditions nor by comparative advantages, provides a strong basis for further expansion of trade flows among developing countries.

93. More serious effort should thus be given to enhancing interregional trade flows among developing countries. It was stated that since factors such as natural resource endowments do not explain the lack of a high degree of trade among developing countries, this gap may be due to other factors such as historical South-North trading links, language barriers, lack of trade financing and transportation, and communication problems. These missing factors needed to be identified and attended to as a matter of priority.

94. Several participants in the Meeting drew attention to potential areas for interregional cooperation among developing countries. Action on commodities was one such area. In view of very depressed commodity prices, and the related accumulation of large stock overhangs for a number of important commodities, leading developing-country commodity producers should consider joint initiatives they might undertake to arrest this development and reverse it if possible. To facilitate action, which may be crucial for the improvement of the economic situation in the affected countries, many of which are least developed, it was suggested that specific proposals be prepared to achieve a better balance between demand and supply for key products exported exclusively from developing countries -- such as coffee and cocoa -- for which demand is relatively inelastic. Such proposals should cover the different aspects of the commodity-dependent economies, such as investment, production and exports, consumption and its promotion, processing and pricing, and they should contain:

- (a) a convincing economic justification in terms of economic benefits, costs and risks, distinguishing each of the main producing and consuming countries ;
- (b) a possible financing plan ;
- (c) a credible statement of the likely financial outcome of operations for the medium term;

- (d) an assessment of supporting measures, such as diversification and productivity increases, needed to make stabilization a long-run success ; and
- (e) a scheme of cooperation with relevant agencies, both national and international.

95. Joint action to reduce the high cost of conducting business, particularly in Africa, was another area for interregional cooperation. One of its major causes is the 'missing middle' mode of production: the technology used in production is either very sophisticated or very primitive. Addressing this problem will require changing traditional attitudes which favour expensive technology from the developed countries, partially as a result of foreign aid which is tied to import procurement in donor countries and partially owing to established preferences for products from developed countries. Yet alternative and cheap techniques of production are available in developing countries and could be secured, for example, by African countries from Asian countries. Eliminating this 'prejudice gap' will require collaboration between Governments and enterprises geared to searching for sources of technology in developing countries.

96. Interregional cooperation to overcome the lack of business information about opportunities for trade, investment and technology in developing countries is also important. Often, developing countries are not aware of opportunities for investment and trade in other developing countries which are not their traditional trading partners. This 'ignorance gap' was a major obstacle to economic cooperation among developing countries. Efforts to reduce the gap should be strengthened and these could include activities such as meetings of buyers and seller to promote trade transactions, or the establishment of regional business information networks for developing countries.

97. Joint action to improve the transportation links among developing countries is an imperative at the interregional, regional and subregional levels. Existing networks are weak and constitute a major obstacle to promoting economic integration and cooperation among developing countries.

98. Last, but not least, is the development of human resources, which is important for development as a whole as well as for cooperation among developing countries. The main aim should be the development of an adequate reserve of skilled labour in developing countries, particularly through joint interregional policies and programmes for overcoming the low level of education and the lack of a specialized and technically skilled labour force.

99. Some participants in the Meeting felt that affirmative action on the part of developing countries was required in developing further and implementing proposals for cooperation in the areas mentioned above, as well as in other established South-South cooperation initiatives such as the Global System of Trade Preferences among Developing Countries (GSTP) and past proposals such as the Bank for the South initiative. Likewise, issues outlined in the Caracas Programme of Action, adopted by the Group of 77 in May 1981, and new initiatives such as the proposal to create an international trade financing facility to help promote in particular non-traditional exports of developing countries needs to be appraised carefully by developing countries. Work needs to be undertaken to analyse which issues should be given new emphasis and which ones should be discarded.

100. The participants emphasized that the identification and pursuit of areas for global cooperation among developing countries do not mean confrontation with the developed countries. In the past, the Governments of developing countries (and developed countries) have tended to consider South-South cooperation, such as through the Group of 77, largely as a tool for international negotiation. Yet cooperation among developing countries is only one, albeit important, dimension of global cooperation. Cooperation among developing countries needs to be perceived in a positive way as a means of contributing to increasing global economic welfare. International organizations such as UNCTAD have a role to play in this regard in terms of re-examining the rationale for South-South cooperation, providing advisory and technical assistance for such cooperation programmes and mobilizing the necessary international support.

Annex I

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Annex II

AGENDA

1. Opening of session
2. Regional economic cooperation in the 1990s: adjusting to new realities
3. Regional and subregional economic integration and cooperation in Asia
4. Regional and subregional economic integration and cooperation in Africa
5. Regional and subregional economic integration and cooperation in Latin America and the Caribbean
6. Interregional economic cooperation among developing countries